

PepsiCo, Inc. 1993



**‘Raising’
Opportunity.**
The care and
nurturing of
PepsiCo’s future.

That little rascal, opportunity, doesn't grow by itself. It requires a whole lot of loving care. Properly nurtured, it ends up as big as an elephant.

Some people look at PepsiCo and see a \$25 billion success story. We look and see a \$100 billion opportunity. Why? Read on...



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Financial Highlights

	Fifty-two Weeks Ended		
	December 25, 1993	December 26, 1992	Percent Change
(dollars in millions except per share amounts)			
Net sales	\$25,021	21,970	+14
Beverages	\$ 8,638	7,606	+14
Snack foods	\$ 7,027	6,132	+15
Restaurants	\$ 9,356	8,232	+14
Segment operating profits	\$ 3,077	2,502	+23(a)
Beverages	\$ 1,109	799	+39(a)
Snack foods	\$ 1,190	985	+21(a)
Restaurants	\$ 778	719	+ 8
Income before cumulative effect of accounting changes	\$ 1,588	1,302	+22(a)
Per Share	\$ 1.96	1.61	+22(a)
Cumulative effect of accounting changes	\$ —	(927)	—
Per Share	\$ —	(1.15)	—
Net income	\$ 1,588	374	(b)
Per Share	\$ 1.96	0.46	(b)
Cash dividends declared			
Per Share	\$ 0.61	0.51	+20
Net cash provided by operating activities	\$ 3,134	2,712	+16
Purchases of property, plant and equipment	\$ 2,008	1,565	+28
Cash dividends paid	\$ 462	396	+17
Acquisitions and investments in affiliates(c)	\$ 1,376	1,399	
Purchases of treasury stock	\$ 464	32	
Return on average shareholders' equity(d)	% 27.2	23.9	

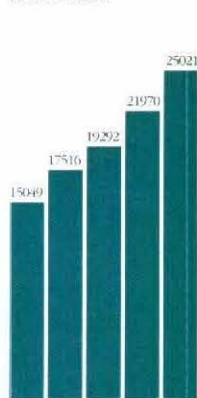
(a) These comparisons are affected by unusual items, consisting of 1992 restructuring charges in worldwide beverages and international snack foods and the impact of the new U.S. tax legislation in 1993. See "Business Segments" on page 27 and Note 3 on page 37.

(b) These comparisons are not meaningful because of the impact of adopting new accounting rules for retiree health benefits and income taxes. See Note 10 on page 40 and Note 13 on page 42.

(c) Includes noncash amounts, principally treasury stock issued, of \$365 in 1993 and \$190 in 1992.

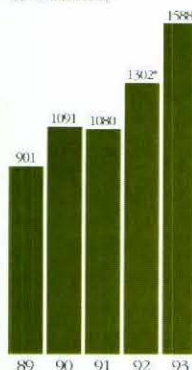
(d) Return on average shareholders' equity was calculated using income before cumulative effect of accounting changes.

Net Sales
(\$ in Millions)



Net sales have grown at a compounded annual rate of 15.1% over the past five years.

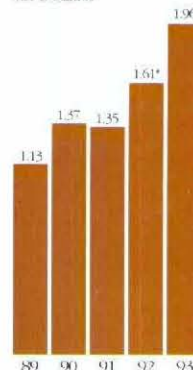
Income From Continuing Operations
(\$ in Millions)



Income from continuing operations has grown at a compounded annual rate of 15.8% over the past five years.

*Before cumulative effect of accounting changes.

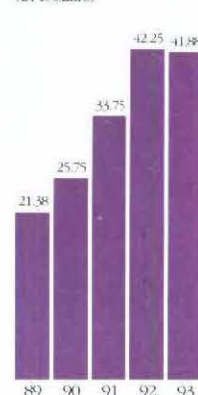
Income Per Share From Continuing Operations
(in Dollars)



Income per share from continuing operations has grown at a compounded annual rate of 15.1% over the past five years.

*Before cumulative effect of accounting changes.

Year-End Market Price of Stock
(in Dollars)



The market price of PepsiCo Capital Stock has grown at a compounded annual rate of 26.1% over the past five years.

Dear Friends:

You remember the line, "You must have been a beautiful baby, 'cause baby, look at you now."

Well, it works great as a song. In reality, it's a bit more complicated. Because for a loving parent — animal, human or corporate — turning early potential into long-term achievement requires a lot of effort and care.

At PepsiCo, we may be "raising" more opportunity than any large corporation on earth. But, how we nurture that opportunity is the real trick, and that's the focus of this report.

More later, but first let's discuss how we fared in 1993, excluding unusual charges.

1993 Results

All in all, the numbers were very good, reflecting very solid volume gains in all three lines of business:

- Sales grew 14% to \$25.0 billion.
- Cash from operations increased 16% to a record \$3.1 billion.
- Net income rose 13% to \$1.6 billion.
- Earnings per share grew 12% to \$2.00.
- Dividends per share jumped 20% to \$0.61.
- Segment operating profits grew a healthy 14%, despite disappointing results in our Australian restaurants. Beverages were up 18%, Snack Foods rose 16% and Restaurants increased 8%.

Despite these strong numbers, our stock price didn't match our performance. Like the shares of many consumer products companies, ours underperformed the market. But I'm confident that, in the long run, PepsiCo's stock price will reflect the fundamental strength and vitality of our business.

The big news for 1993, though, was strong volume growth nearly across the board. Consumers demonstrated a lot of interest in our products all year long. Consider these examples: Frito-Lay continued five years of extraordinary volume growth with an 8% increase — the largest advance in a decade and more than twice the rate of growth for the entire U.S. snack chip category. And Taco Bell marked its fifth consecutive year of strong volume growth.

Of course, it's the future that really counts. Can we keep it up? Do we have real opportunity ahead of us? How will we translate that into big growth? Here are some of my thoughts.

Measuring Opportunity

At PepsiCo, we seek great opportunity for our shareholders by aiming at the largest possible markets and designing products to best penetrate them. We're a global mass marketer in the biggest sense, with the opportunity to touch every consumer on earth.

Of course, we're not alone. Many companies have a product suited to the global mass market. Some companies even have a whole line of products. But at PepsiCo, we have more: scores of famous products and three distinct businesses, all very large, and all very well positioned for global growth. Plus, we've demonstrated many times that we can nurture opportunity into reality.

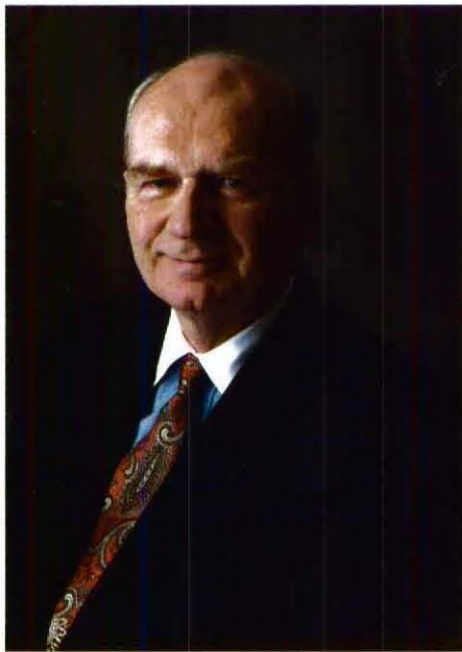
You already know how well PepsiCo's businesses do in the U.S., but you might be surprised to learn:

- Pizza Hut's highest sales volume restaurant is not in its hometown of Wichita, Kansas, but 4,700 miles away in Paris, France.
- Two of Pepsi-Cola's most successful markets are Saudi Arabia and Guatemala.
- The KFC restaurants with the most customers are not in Kentucky; they're in China.
- PepsiCo's biggest snack chip market share is not in the U.S., but in Mexico, at 80%.

There are good reasons for this worldwide strength. All three of our businesses easily cross cultural and geographic boundaries. People everywhere like pizza, chicken, snacks and soft drinks. On top of that, our products are affordable. And most of all, we have the experience and the insight to make our products appealing in every market.

Even better, we've really only scratched the surface. In our very large, well established markets like the U.S., we still have enormous opportunities to grow through new initiatives with familiar products. In 1993, for example, case sales of Pepsi-Cola's decades-old Mountain Dew brand grew a whopping 11%. That growth equals about \$300 million at retail.

In developing markets, like India, China and Eastern Europe, we have the opportunity to grow even faster than the economy — in all three businesses. And even in some established markets, which are underdeveloped for PepsiCo, we can increase our opportunity



Wayne Calloway
Chairman of the Board
and Chief Executive Officer

greatly with a few wise changes in our operations. For example, our beverage business in 1993 had a 13% increase in case sales in Argentina.

So, no matter what the size or status of the market, whether established or emerging, the opportunity for PepsiCo is big, global and waiting to be nurtured into real growth.

Nurturing Opportunity into Reality

Three characteristics of PepsiCo give me lots of confidence that we can do just that.

First, we're unsurpassed at introducing powerful new products. Take a look at the major successes we had in 1993 alone. We created over \$1 billion in retail sales with just four products:

- Bigfoot Pizza: \$525 million in sales in about 7 months.
- Colonel's Rotisserie Gold Chicken: \$250 million in about 5 months.
- Lipton Original Tea: \$180 million, with limited production capacity.
- Doritos Tortilla Thins: \$125 million in about 10 months.

Second, we know how to keep prices low and still produce outstanding profits. For example:

- The inflation-adjusted U.S. wholesale price of Pepsi-Cola has declined about 30% in the last 10 years, yet our profits have grown four-fold.
- Taco Bell, the world's value leader, rolled back prices of its most popular food items by 25% six years ago, yet profits have nearly tripled since then.
- The inflation-adjusted wholesale price of a pound of Frito-Lay products is 15% less than in 1980; yet ongoing profits have been up nearly every year since then.

Third, we have huge resources and the willingness to use them to make big things happen. During the past five years, we've generated more than \$12 billion in net cash from operations and invested \$14 billion in capital spending and close-in business acquisitions. That enabled us, for example, to add over 5,000 company-owned restaurants to our system.

To me, these three characteristics will allow us to take advantage of opportunity and generate continued aggressive growth for as far out as I can see.

The Bottom Line

Raised well, that tiny moose on our cover, or any of the other cubs and pups you'll find on these pages, will grow into something very large indeed. They don't use the phrase "as big as a moose" for nothing.

That kind of impressive growth is a PepsiCo tradition—one that sets us apart. We see sales and profit growth as the best way to satisfy, not just shareholders, but employees, customers, suppliers, and the communities in which we do business.

The "cultural" implication of aggressive growth is very important to a company like PepsiCo. It satisfies even the most ambitious and allows all of us to flourish.

It also helps us attract and retain the world's best and brightest people, who are truly the most important element of our success. The fact is, aggressive growth builds on itself and creates a corporate atmosphere that's healthy, stimulating and productive.

What's our ultimate opportunity? Because of PepsiCo's three great businesses, I believe we'll someday sell a *variety* of products on a *daily* basis to every living person on earth—all five billion of them!

We'll nurture that opportunity by:

- Investing wisely and for the long term,
- Hiring the best people—and retaining them,
- Trying lots of new things,
- Creating products with universal appeal,
- Offering astonishing quality at irresistible prices,
- Maintaining the highest level of integrity in everything we do.

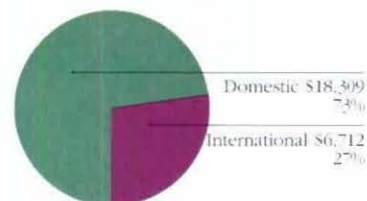
Will we succeed? Just as there are no perfect parents, there are no perfect companies. But I can promise you that all 423,000 of us at PepsiCo are working hard on your behalf. We will do absolutely everything in our power to make this company all that it can be.

Thanks for being a part of the PepsiCo family.

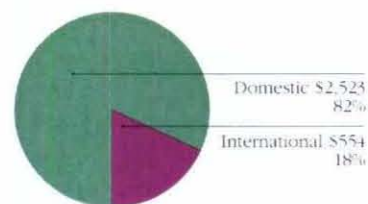
Wayne Calloway

Wayne Calloway
Chairman of the Board
and Chief Executive Officer

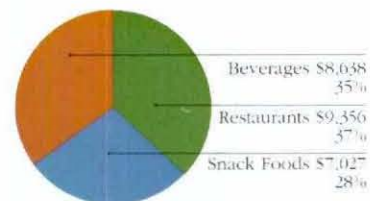
Net Sales Total: \$25,021 (\$ in Millions)



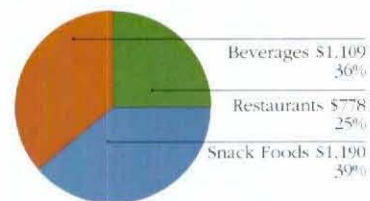
Segment Operating Profits Total: \$3,077 (\$ in Millions)

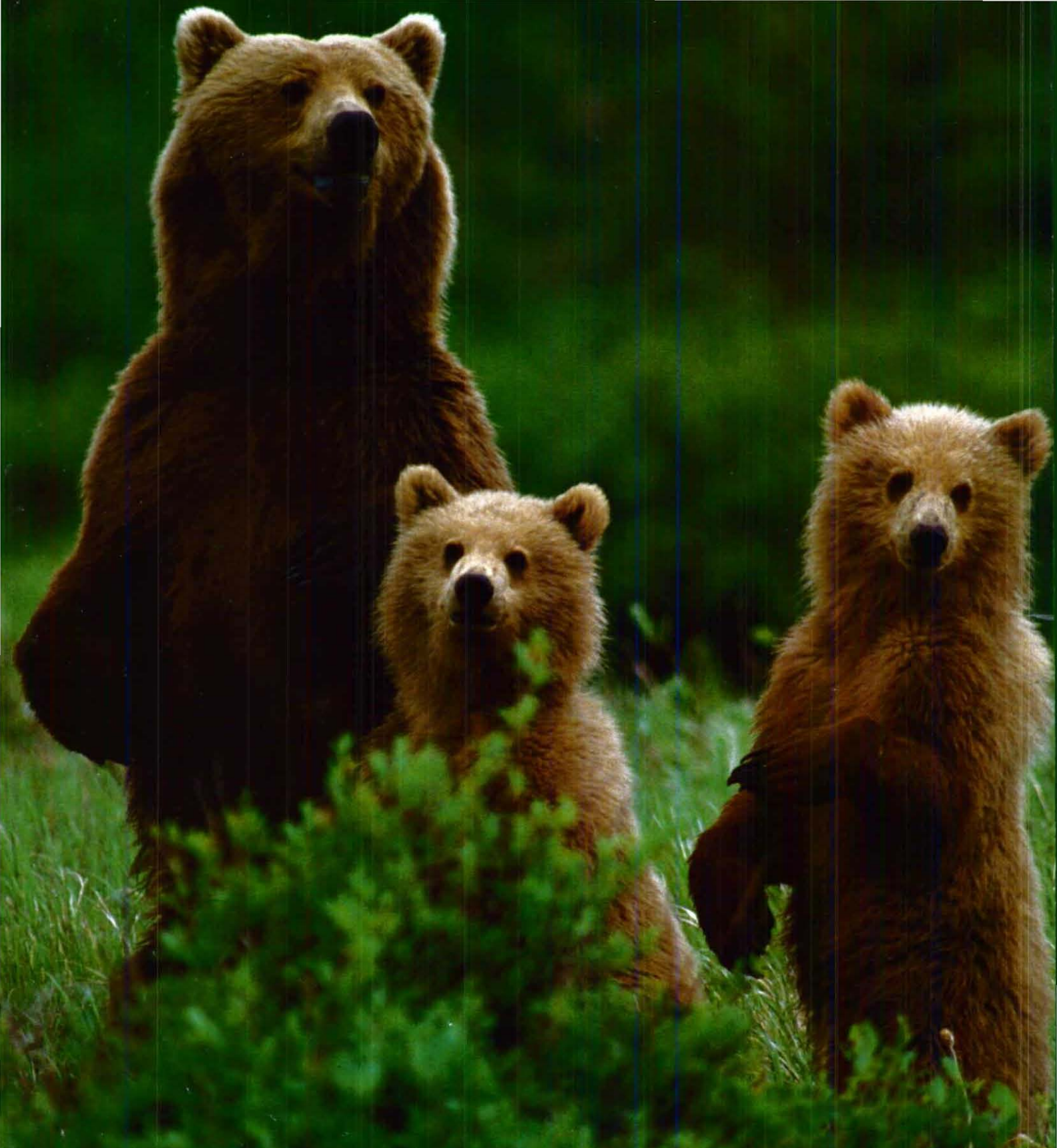


Net Sales Total: \$25,021 (\$ in Millions)



Segment Operating Profits Total: \$3,077 (\$ in Millions)





Soft drinks, our traditional market, are about one-quarter of all beverages consumed in the U.S. By offering teas, juices, water and sports drinks, we've increased our market by 50% and created growth opportunities in whole new categories.

Chairman's Perspective

Year after year the beverage industry—especially PepsiCo's beverage business—demonstrates impressive strength and flexibility. Nurtured carefully, it has a pretty good claim on the title of "world's best business."

In 1993, our beverage profits topped \$1 billion. It's a business that's nearly a hundred years old—and grows stronger and more vigorous each year. I'm very optimistic that this will continue for many years.

Some people find it hard to imagine how a business already so big could keep growing. But to me, two things really clarify the grand scale of our opportunity.

The first is demographic. For years we've focused on the U.S. Yet 95% of the world's people live elsewhere. That leaves five *billion* potential customers to reach. Or, put another way, if international consumers spent even *one-tenth* of what the average American spends on our soft drinks, we'd have over \$30 billion in international beverage system retail sales—more than double what they are today.

The other thing that helps you appreciate our potential has to do with the dynamic nature of the beverage business. Left alone, it probably would grow about as fast as the population. But creatively tweak the market—with new products, new packaging, hot pricing or broader distribution—and watch out! Consumption grows and so does our volume.

Taken together, it means we're focusing on several major growth strategies, all aimed at driving strong volume:

- Stimulating growth of traditional soft drinks,
- Expanding into fast-growing new categories,
- Developing our international markets.

Stimulating Growth of Traditional Soft Drinks

New products and packages and other creative initiatives are powerful tools for stimulating growth, in even the most established brands. In 1993, careful nurturing of our brands helped drive 2.6% volume growth in U.S. supermarkets, outpacing our largest competitor. Mountain Dew, up nearly 11% in total case sales, became America's sixth largest soft drink—which is no small achievement when you realize that's \$2.7 billion in retail sales for that core product.

Our ability to stimulate growth in the U.S. through creative packaging was well illustrated in the summer of 1993 when we introduced the Big Slam, a 1-liter wide-mouth bottle. Thirsty consumers quickly snapped up over 100 million of them. That's about \$100 million in retail sales. And The Cube, a new 24-pack that fits on your refrigerator shelf, enticed many consumers to take home bigger packages.

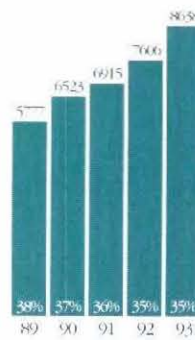
In an era when consumers are focused on value, keeping our products affordable to everyone drives our volume. It also keeps private label products from making major inroads in our business.

As our business has grown, we've gained tremendous production efficiencies. In the U.S., that's meant great prices. In fact, the inflation-adjusted wholesale price of a case of Pepsi has actually decreased over the last decade—and yet our operating profits have grown four-fold.

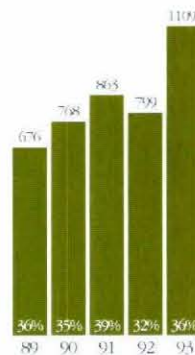
Expanding into Fast-Growing New Categories

American consumers are clamoring for greater variety, and some of the fastest-growing product categories are outside our traditional soft drink business. So, we

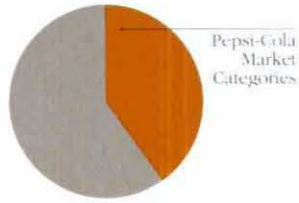
**Beverages
Net Sales**
% of Total Net Sales
(\$ in Millions)



**Beverages
Operating Profits**
% of Total Segment
Operating Profits
(\$ in Millions)

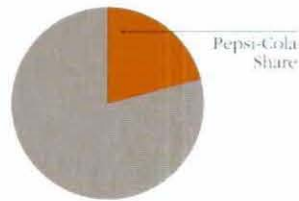


U.S. Liquid Consumption Pepsi-Cola Market Categories



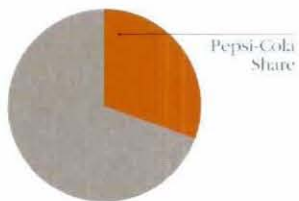
The beverage categories in which Pepsi-Cola now competes — soft drinks, teas, bottled water and juices — account for about 40% of all beverages consumed, a market 50% bigger than soft drinks alone.

U.S. Consumption in Pepsi-Cola Beverage Categories Pepsi-Cola Share



Pepsi-Cola products account for about 21% of the combined soft drink, tea, bottled water and juice categories.

U.S. Soft Drink Industry Retail Sales Pepsi-Cola Share



U.S. retail sales of soft drinks reached about \$49 billion. Pepsi-Cola brands account for nearly one-third of the industry.

began an all-out effort to become what we call “a total beverage company.” We formed alliances with Thomas J. Lipton Co. and Ocean Spray. We stepped up product development. And today, we’re offering not just soft drinks, but ready-to-drink teas, juices, water and sports drinks.

By expanding into a U.S. beverage market 50% bigger than soft drinks, we’ve created over a billion-dollar growth opportunity. Tea is a great example. We reached national distribution of Lipton brand ready-to-drink teas in 1993. By year end, retail sales of Lipton Original were \$180 million. Now, we’re in a horse race for the number one spot. The tea market is estimated to be a billion-dollar industry and still growing. For PepsiCo, that means a huge opportunity.

And if you think tea is exciting, keep your eye on ready-to-drink lemonade. It’s another fast growing U.S. category, with the potential to really explode. And with our new Ocean Spray lemonade products, we’re positioning ourselves for this growth opportunity.

Developing Our International Markets

Given the demographics I mentioned earlier, it’s hard to imagine a business with more opportunity than we have in international beverages.

Right now you can buy our soft drinks in 166 countries. But, from our perspective, nearly all these markets are vastly underdeveloped. Overall per-capita soft drink consumption in international markets is tiny compared with the U.S. — four gallons a year versus about 49 gallons.

We’re nurturing this budding business by strengthening our bottling operations. For example, in the key emerging markets in Eastern Europe, we established company-owned bottling and distribution operations in Budapest, Warsaw, Prague and Moscow.

We’re also accelerating market development through alliances

with large, powerful bottlers. In 1993, for example, we agreed to make a major investment in the formation of a Latin American “superbottler,” combining operations in Argentina, Brazil, Chile and Uruguay.

Product and package innovation is stimulating international market growth — for example, Pepsi Max, a great tasting low-calorie cola. When we tested it in Scotland in 1993, it quickly captured 10% of the cola market. Within months, we introduced it in Australia, Holland, Ireland and the entire U.K. We plan to introduce Pepsi Max in more than a dozen new markets in 1994.

To me, the power of PepsiCo’s beverage business is clear. With our plans to drive growth in our U.S. soft drink business, expand into hot new categories and aggressively develop our international business, I’m optimistic that we’ll be able to grow for a very long time.

And now, here’s our management’s analysis.

Management’s Analysis

(See “Management’s Analysis—Overview” on page 24 for background information and “Business Segments” on page 27 for detailed results.)

1993 vs. 1992

Worldwide net sales increased 14% to \$8.6 billion. Comparisons are affected by acquisitions, consisting primarily of franchised bottling operations in Spain and the U.S., as well as the absence of results of certain small international bottling and distribution operations sold or contributed to a joint venture (collectively, “net acquisitions”). Net acquisitions contributed 10 points to worldwide sales growth.

Domestic sales grew \$433 million or 8% to \$5.9 billion. Acquisitions contributed \$222 million or 4 points of domestic sales growth. Volume growth, driven by new products, contributed approximately \$170 million. The balance of the sales growth reflected a mix

shift to new products with higher net prices, principally the new Lipton Original brand ready-to-drink tea products and certain Ocean Spray brand juice products.

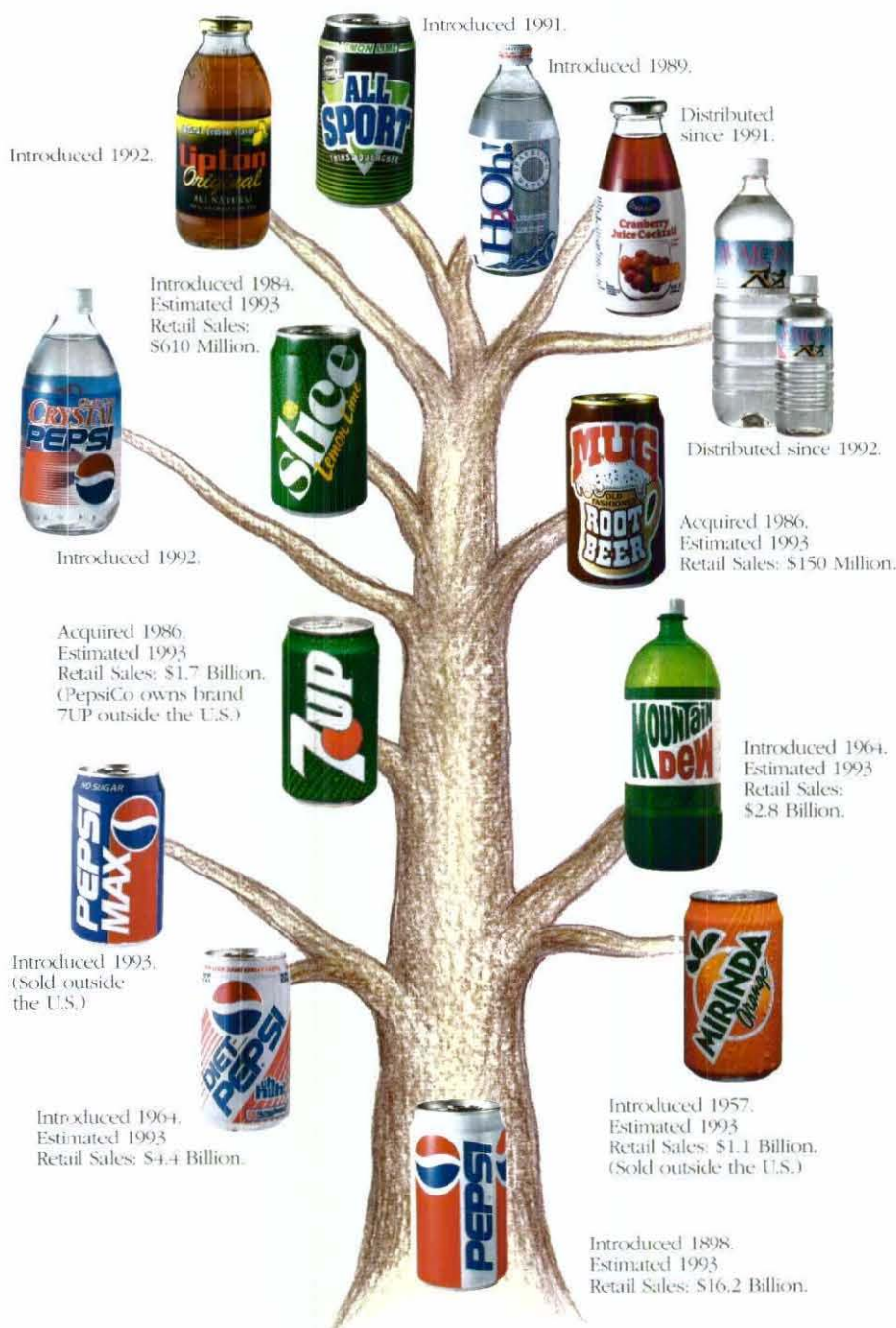
Beverage retail sales volume is measured in system bottler case sales (case sales), consisting of sales by company-owned and franchised bottlers to retailers of packaged products and fountain syrup. Domestic case sales increased 3% over 1992, reflecting the impact of the late 1992 introduction of Crystal Pepsi and Diet Crystal Pepsi brands, the growth in Mountain Dew brands and the expanded distribution of new Lipton brand tea products. Case sales of fountain syrup grew at the same rate as packaged products. Previously existing Ocean Spray products sold to retailers under a distribution agreement are not included in reported case sales growth. Excluding the Lipton products, volume of all PepsiCo-owned brands grew 2%, driven by a double-digit increase in Mountain Dew. Case sales of the Crystal Pepsi brands offset a decline in brands Pepsi and Diet Pepsi. As a result of softening trends in the Crystal Pepsi brands, the product is being refined and will be reintroduced in 1994 in a nondiet version only.

Pepsi-Cola is launching a product quality initiative that introduces the voluntary marking of packaged carbonated soft drink products sold in the U.S. with a "Best if Consumed By" date. This program is expected to result in even greater consumer satisfaction with the taste of the products. Costs associated with this initiative have not been material and are not expected to be material in the future.

International sales rose \$600 million or 28% to \$2.7 billion. Net acquisitions contributed \$476 million or 22 points of sales growth, but the unfavorable currency translation impact of a stronger U.S. dollar in both concentrate and bottling operations reduced growth by \$58 million or 3 points.

Beverage Family Tree

PepsiCo beverages are available in 166 countries and territories through company-owned, joint venture and franchised bottlers.



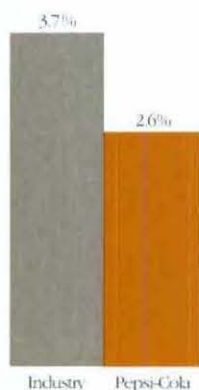
Total Retail Sales: \$28.2 Billion

U.S. Soft Drink Consumption (Gallons Per Capita)



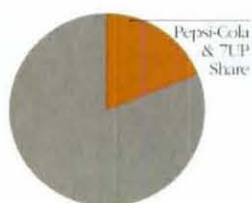
U.S. soft drink consumption reached almost 49 gallons per person.

U.S. Soft Drink Industry Case Sales Growth in Supermarkets vs. Pepsi-Cola Brands System Growth



U.S. Pepsi-Cola brands system volume in supermarkets grew 2.6%, faster than our closest competitor but behind the growth of flavors and private label brands.

International Soft Drink Industry Case Sales Pepsi-Cola and 7UP Share



Pepsi-Cola and 7UP brands are available in 166 countries and territories outside the U.S. and account for 19% of the international soft drink industry.

The balance of the sales growth reflected higher concentrate pricing, led by Latin America, concentrate shipment growth that contributed about \$50 million, as well as the start-up of company-owned distribution operations in France and Eastern Europe. A small decline in existing bottling operations reflected lower pricing in Germany, largely offset by higher prices and volumes in Greece.

International case sales of all PepsiCo-owned brands rose 7%. Excluding the newly acquired KAS flavor brands in Spain, international case sales grew 5%. This performance reflected solid advances in Latin America, the largest geographic region in case sales, as well as double-digit growth in Asia, led by China and Pakistan, and in Eastern Europe, led by Turkey and Hungary. The Middle East, particularly Saudi Arabia, also contributed to case sales growth.

Worldwide operating profits increased 39% to \$1.1 billion. Excluding the 1992 restructuring charges totaling \$145 million (\$115.4 million for domestic and \$29.6 million for international), profits were up 18%.

The 1992 domestic charge arose from an organizational restructuring designed to improve customer focus by realigning resources consistent with Pepsi-Cola's "Right Side Up" operating philosophy, as well as a redesign of key administrative and business processes. The organizational restructuring was completed in 1992. The redesign of core processes is ongoing. Nationwide implementation of certain of the redesigned processes is underway and, because of the comprehensive scope of the effort, is expected to be completed in several years. The charge included provisions for costs associated with redeployed and displaced employees, the redesign of core processes and office closures.

The international restructuring charge, which related primarily to displaced employees, included \$18.5 million to streamline the acquired Spanish franchised bottling operation. This amount represented 30% (PepsiCo's ownership interest prior to the acquisition of the remaining interest) of the total cost of the streamlining. The remaining \$11.1 million of the charge represented costs associated with streamlining the worldwide field management organization. The international actions related to Spain will be largely completed in 1994, and the other actions have been substantially completed.

The costs provided for in these domestic and international restructuring actions and the related savings are principally of a cash nature. The benefits of actions completed and those still in process are expected to result in annual savings approximating \$119 million (\$105 million for domestic and \$14 million for international) when fully implemented, as originally projected. These savings will continue to provide additional resources to reinvest in the businesses and strengthen Pepsi-Cola's worldwide competitive position.

Domestic profits increased 37% to \$937 million. Excluding the 1992 restructuring charge, profits grew \$135 million or 17%. Volume gains, led by new products, contributed about \$90 million to profits. The combined benefit of lower packaging and ingredient costs and the favorable product mix shift was largely offset by higher operating expenses. Profit growth also benefited from a \$12 million reduction in retiree health care expense due to 1993 plan amendments described in Note 10, as well as a \$9 million credit arising from a net adjustment of accruals related to prior years' acquisitions. Promotional costs were about even with last year; however, selling and administra-

tive expenses grew at a faster rate than sales due to transitional costs to support the organizational and process redesign initiatives. This higher level of selling and administrative costs as a percentage of sales is expected to continue until the benefits of these initiatives are realized. Sales of the new higher-margin Lipton Original brand tea products resulted in a significant contribution to profit growth. The Crystal Pepsi products particularly aided first quarter results, but did not significantly impact full year profits. The domestic profit margin, excluding the 1992 restructuring charge, grew over one point to 15.8%.

International profits increased 53% to \$172 million. Excluding the 1992 restructuring charge, profits grew \$30 million or 21%. Unfavorable currency translation impacts, principally in concentrate operations, reduced profit growth by \$14 million or 10 points. The profit advance, led by Latin America, reflected higher concentrate pricing in excess of increased operating expenses, and concentrate shipment growth that contributed about \$15 million. These benefits were partially offset by increased losses in company-owned bottling and distribution operations, led by Germany. Start-ups of distribution operations also contributed to the increased losses. A profit decline in bottling operations in Japan, due to increased operating expenses, was offset by growth in Canada, reflecting administrative cost reductions through consolidation of support functions in recently acquired operations. The Canadian improvement was achieved despite a \$12.2 million fourth quarter 1993 charge to further streamline operations and strengthen its competitive position. Offsetting this effect was an \$11.9 million credit in the second quarter of 1993 related to a settlement of litigation with a former franchised bottler in Europe.

The international profit margin, excluding the 1992 restructuring charge, declined almost one-half point to 6.3%. Excluding the impact of the lower margin net acquisitions, the profit margin grew one point.

1992 vs. 1991

Worldwide net sales increased 10% to \$7.6 billion. Acquisitions of domestic and international franchised bottling operations added 5 points to sales growth.

Domestic sales rose \$314 million or 6% to \$5.5 billion. Acquisitions contributed \$180 million or 3 points to sales growth. The balance of the sales growth was driven by higher packaged product and fountain syrup pricing to retailers and higher concentrate pricing to franchised bottlers.

Domestic case sales increased 1% over 1991, driven by gains in the Mountain Dew brands and the new brand Crystal Pepsi and Lipton brand tea products, partially offset by a decline in brand Pepsi. Case sales of fountain syrup grew at a faster rate than packaged products.

International sales rose \$377 million or 22% to \$2.1 billion. Acquisitions of franchised bottling operations, principally in Canada, contributed \$191 million or 11 points to sales growth. The balance of the sales growth reflected concentrate price increases, led by Latin America, and the combined impact of volume gains and higher pricing in existing bottling operations. About \$30 million of the sales increase came from growth in concentrate shipments.

International case sales rose 7%, due to growth in almost all key markets, with a double-digit increase in Mexico, the largest market in case sales, partially offset by declines in Brazil and Canada. Emerging markets in Asia and Eastern Europe also aided case sales growth.

Worldwide operating profits declined 7% to \$799 million. Excluding \$167.4 million in 1992

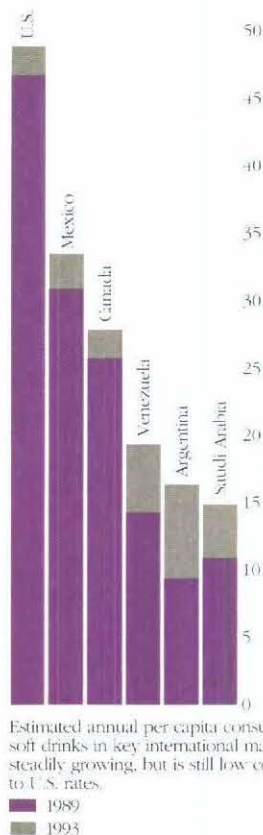
unusual items, profits were up 12%. Acquisitions contributed 2 points to worldwide profit growth.

The unusual items were comprised of \$145 million in restructuring charges (\$115.4 million for domestic and \$29.6 million for international) and \$22.4 million in incremental expenses due to adopting new accounting rules. See 1993 vs. 1992 discussion for a description of the restructuring actions and status as of year-end 1993. The new accounting rules for retiree health benefits and income taxes resulted in incremental expenses of \$16.1 million (almost all domestic) and \$6.3 million (all domestic), respectively.

Domestic profits declined 8% to \$686 million. Excluding the 1992 unusual items, profits grew \$78 million or 10%. Acquisitions contributed \$11 million or 1 point to profit growth. The balance of the profit growth was driven by higher prices that exceeded cost increases. The higher costs reflected growth in operating and administrative expenses, partially offset by lower ingredient and packaging costs. The domestic profit margin, excluding the 1992 unusual items, grew one-half point to 15.0%.

International profits decreased 4% to \$112 million. Excluding the 1992 unusual items, profits increased \$25 million or 22%. Acquisitions contributed \$8 million or 7 points to profit growth. The balance of the profit growth was led by higher concentrate shipments that added about \$20 million. The net impact of concentrate price increases that exceeded higher operating expenses, led by Latin America, also contributed to the increase. Profits fell in bottling operations in Canada, reflecting declines in industry sales and intense competitive activity. Profits included gains on sales of assets of \$3.1 million in 1992 and \$5.7 million in 1991. The international profit margin, excluding the 1992 unusual items, was unchanged at 6.7%.

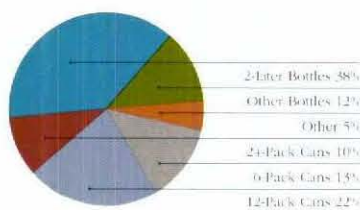
International Soft Drink Consumption Growth 1989 vs. 1993 (Gallons Per Capita)



Estimated annual per capita consumption of soft drinks in key international markets is steadily growing, but is still low compared to U.S. rates.

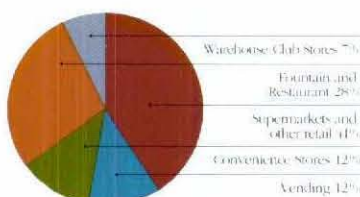
■ 1989
■ 1993

U.S. Soft Drink Industry Sales to Supermarkets by Package



Larger package sizes dominate supermarket sales. Sales of our 12-packs and 24-packs were up 13% and 8%, respectively.

U.S. Soft Drink Industry Distribution Channels



Sales of Pepsi-Cola brands in supermarkets, the largest distribution channel, were up 2.6%. Sales of Pepsi-Cola brands in warehouse and club stores were up 15%.



Snack food opportunities are everywhere we look. We see plenty of growth ahead from our traditional customers—the 5% of the world that lives in the U.S. But we're also making great progress toward serving the other 95%—some five billion people.

Chairman's Perspective

Snack foods are a great business to be in today. In our over-stressed world, people want to put some fun in their lives, and our snacks help them do it. Maybe that's why we're growing by leaps and bounds.

As the world's largest snack chip company, we're in a great position to take advantage of opportunities—and I see plenty of them.

So far we've been pretty successful. In 1993, our snack food sales, which also include candy and cookies, reached \$7 billion and profits crossed the \$1 billion mark, with domestic volume growth the strongest in a decade. At the same time, we invested over a half-billion dollars, primarily to improve manufacturing and to buy more international businesses.

So we're laying a solid foundation for what we expect will be a big future. The fact is, being a clear number one in the world, and having the financial strength that goes along with that, gives us extraordinary resources to pursue aggressive growth.

Our approach really boils down to three key strategies:

- Growing our share of traditional market categories,
- Strengthening our position in "better-for-you" products,
- Continued penetration and development of international markets.

Let me explain how we're pursuing these strategies.

Growing Our Share of Traditional Market Categories

Even with our more than 50% share of U.S. snack chip retail sales, we've got lots of room to grow. As I see it, we're starting with a \$5 billion opportunity that gets bigger each day as the market grows.

Take potato chips. At retail, Frito-Lay sells about 45% of the potato chips Americans buy. But with great new ideas, like

Wavy Lay's Potato Chips, we can expand the market into something much larger. There's also lots of room to grow our share, particularly where strong local brands have the lion's share. By carefully nurturing our Lay's and Ruffles brands potato chips, we're capturing more of the over \$2 billion in opportunities still out there. Consumers like the quality improvements we made in 1992, and it seems they're voting with their wallets: Retail sales of Lay's brand grew at a double-digit rate in 1993.

We're also nurturing our tortilla chip brands—and growing the market in the process. The 1993 launch of Doritos Tortilla Thins, a tortilla chip as thin as a potato chip, helped fuel a double-digit advance in U.S. retail sales of our mammoth Doritos brand. The gain alone amounted to nearly \$150 million in U.S. retail sales.

Strengthening our Position in "Better-For-You" Products

The consumer trend toward lower-fat snacks represents a tremendous opportunity for Frito-Lay, and we're making the most of it.

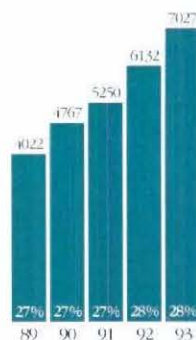
Pretzels, for example, which are baked and naturally low in fat, are the fastest-growing segment of the U.S. snack chip category. And in Rold Gold brand, we're fortunate in owning the country's leading pretzel. In 1993, we carefully nurtured Rold Gold by offering new flavors, shapes and sizes. The brand responded beautifully, growing by nearly 50%. That puts retail sales of Rold Gold pretzels at about \$180 million. Which goes to show a little nurturing goes a long way, even with a brand that's been around for decades.

We're developing new products, too—like low-fat Baked Tostitos brand tortilla chips, which we tested in 1993. Consumers loved them, and we're introducing them nationwide.

Snack Foods

Net Sales

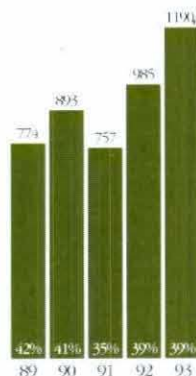
% of Total Net Sales
(\$ in Millions)



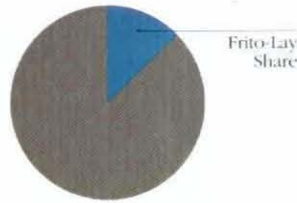
Snack Foods

Operating Profits

% of Total Segment
Operating Profits
(\$ in Millions)

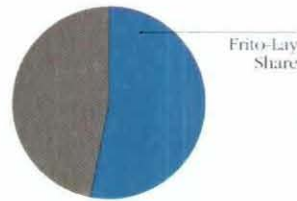


U.S. Snack Food Industry Retail Sales Frito-Lay Share



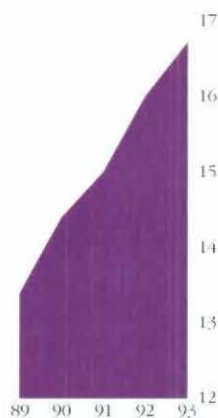
U.S. retail sales of snack foods, such as chips, candy, cookies, nuts and other items, totaled more than \$46 billion. Frito-Lay's share was \$6 billion, or 13%.

U.S. Snack Chip Industry Retail Sales Frito-Lay Share



U.S. retail sales of snack chips reached \$10.7 billion. Frito-Lay's share was 53%.

U.S. Snack Chip Consumption (Lbs. Per Capita)



U.S. snack chip consumption climbed to 16.7 pounds per person.

Continued Penetration and Development of International Markets

Internationally, snack foods are a \$90 billion market—twice as big as in the U.S.—so it's pretty clear people the world over love to snack. For us that means almost limitless room to grow. Think about it:

- If our snack chip market share reached what we hold in the U.S., we'd have retail sales of \$8 billion in our international snack chip system—twice what it is today.
- If the snack chip category rose to the same proportion of the snack food market as in the U.S., that would be \$11 billion.

Add to that the fact that the whole snack food market is also growing—and you're looking at some pretty huge opportunities.

What's more exciting, we've already demonstrated we can replicate our U.S. success in international markets. By applying what we've learned at Frito-Lay—about product quality, route systems and all the nuts and bolts—and tailoring it to the local market, we've built businesses like Sabritas, Mexico's largest snack chip company. Today it has over a billion dollars in retail sales with an astounding 80% share of a fast-growing snack chip market. And with per capita snack chip consumption in Mexico just one-sixth of the U.S. rate—and climbing—we see healthy gains there for many years.

The point is that PepsiCo's snack success is not limited to the U.S. We can reproduce it in markets around the globe. We have decades of experience and an expanding portfolio of great brands. For example, we introduced SunChips multigrain snacks in Canada, and added \$40 million to retail sales in 1993. And that's just one brand in one country.

We have literally hundreds of opportunities in scores of markets—and we're working from a pretty solid foundation. Take Europe for example. In 1989, we

invested over a billion dollars to buy the leading snack company in the U.K., today known as Walkers Smiths. In 1992, we formed a joint venture with General Mills called Snack Ventures Europe with operations in six countries. These initiatives have made us the biggest snack chip company in Europe, with about \$1.5 billion in system retail sales and strong growth potential. We're nurturing them by upgrading quality, expanding distribution and building manufacturing capacity.

So, our global snack business has never looked better. We're stimulating big growth in traditional snack categories, nurturing major opportunities in "better-for-you" products and aggressively developing the enormous potential of international markets.

Now, here's our management's analysis.

Management's Analysis

(See "Management's Analysis—Overview" on page 24 for background information and "Business Segments" on page 27 for detailed results.)

1993 vs. 1992

Worldwide net sales rose 15% to \$7.0 billion. Comparisons are affected by international acquisitions, consisting principally of the securing of a controlling interest in the Gamesa (Mexico) cookie business and the buyout of the joint venture partner at Hostess Frito-Lay (Canada), both in 1992, as well as the 1993 reconsolidation of a small snack chip business in Japan previously held for sale (collectively, "acquisition activity"). Acquisition activity added 7 points to the worldwide sales growth.

Domestic sales grew \$415 million or 11% to \$4.4 billion. Volume growth contributed about \$320 million to the domestic increase. Sales growth also reflected higher effective pricing through lower package weights, partially offset by a sales mix shift to larger, value-oriented packages and products with lower gross prices. The higher effective pricing

ing was mitigated by increased promotional price allowances to retailers, which are reported as marketing expenses and therefore do not reduce reported sales.

Total domestic pound sales advanced 8%, reflecting double-digit growth in Lay's brand potato chips, Doritos and Tostitos brand tortilla chips and Rold Gold brand pretzels.

International sales rose \$480 million or 22% to \$2.7 billion. Acquisition activity contributed \$383 million or 18 points to the increase, but the unfavorable currency translation impact of a stronger U.S. dollar, principally against the British pound, reduced sales growth by \$111 million or 5 points. The balance of sales growth, led by the Sabritas snack chip and candy business in Mexico, reflected higher volumes, which contributed about \$150 million, and higher pricing.

International kilo volume performance is reported on a systemwide basis, which includes both consolidated businesses and joint ventures operated for at least one year. Systemwide snack chip volume rose 5% led by double-digit growth in Canada and Turkey and gains at Sabritas and in the U.K. Confectioneries (primarily candy and cookies) account for about 30% of reported international snack food sales. Systemwide confectionary volume grew 7% reflecting gains at Gamesa and double-digit advances at Sabritas.

Worldwide operating profits increased 21% to \$1.2 billion. Excluding a 1992 international restructuring charge of \$40.3 million, profits increased 16%. The largest component of the 1992 restructuring charge related to actions, many of which have been completed, to consolidate and streamline the Smiths and Walkers businesses in the U.K.

The costs provided for in these restructuring actions and related savings are principally of a cash nature. As originally projected, these actions, when fully implemented, are currently

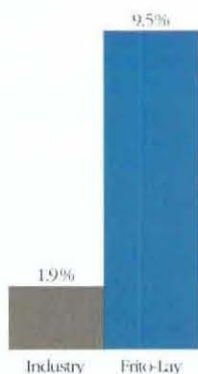
Snack Food Family Tree

PepsiCo snack foods are available in nearly 90 countries and territories. The PepsiCo system includes plants in 26 countries that are company-owned, joint ventures or licensed.



Total Retail Sales: \$11.4 Billion

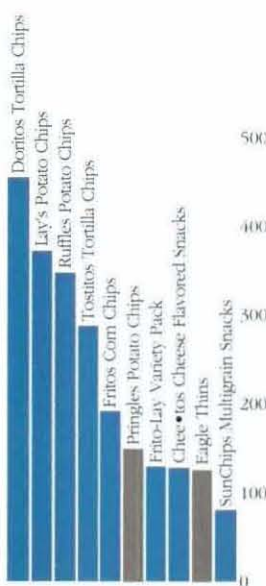
U.S. Snack Chip Industry Pound Sales Growth in Supermarkets vs. Frito-Lay Growth



Pound sales of Frito-Lay snack chip products in U.S. supermarkets grew five times as fast as industry growth. Frito-Lay pound share was up three points.

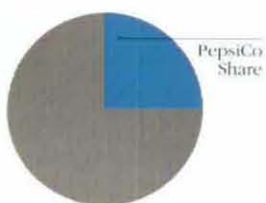
Top-Selling Snack Chip Items In U.S. Supermarkets

(Retail Sales \$ in Millions)



Eight of Frito-Lay's brands were among the 10 largest-selling snack chip products in U.S. supermarkets.

International Snack Chip Industry Retail Sales PepsiCo Share



International retail sales of snack chips totaled about \$15 billion. Products of the PepsiCo system represented about \$3.8 billion, or 25%.

expected to result in annual savings of about \$35 million, providing additional resources for reinvestment in the businesses to strengthen competitive positions.

Domestic profits rose \$125 million or 16% to \$901 million. This performance reflected volume growth, which contributed about \$165 million to domestic profits, and a \$24 million reduction in retiree health care expense due to 1993 plan amendments described in Note 10. These benefits were partially offset by increased manufacturing costs and other operating expenses that exceeded the higher effective pricing. The unfavorable sales mix shift also depressed profit growth. The higher manufacturing costs reflected a temporary increase in potato costs of approximately \$25 million resulting from the effects of extreme weather conditions in March on the potato crop in the Southern U.S. The domestic profit margin rose one point to 20.6%.

Though difficult to forecast, higher prices in 1994 for vegetable oil, resulting from the past summer's flooding in the Midwestern U.S., are expected to be partially offset by a decline in potato prices from 1993 levels. However, potato prices have been less predictable in recent years due to weather conditions.

International profits grew 38% to \$289 million. Excluding the 1992 restructuring charge, profits rose \$39 million or 16%. Profit growth was depressed by an unfavorable currency translation impact of \$12 million or 5 points. The profit performance was driven by Sabritas and reflected higher volumes, which contributed about \$85 million to profit growth, partially offset by operating cost increases that exceeded higher pricing. The operating cost increases were mitigated by savings from the restructuring actions announced in 1992 and a \$6.1 million credit resulting from the decision to retain the business in Japan. The international profit margin, excluding the 1992

restructuring charge, declined one-half point to 10.9%. Excluding the impact of lower margin acquisitions, the profit margin increased over one point.

Double-digit profit growth at Sabritas was driven by higher snack chip and candy volumes. Increased manufacturing and other operating expenses were partially offset by higher pricing.

Profits in the U.K. declined due to an unfavorable currency translation impact. Double-digit profit growth on a local currency basis reflected the cost savings from the 1992 restructuring actions, volume gains and a sales mix shift to higher margin products, partially offset by increased manufacturing costs. Profit growth was also depressed by the effect of a 1992 credit arising from the final settlement of pension assets related to the 1989 acquisition of the U.K. operations. A decline in profits for Poland reflected increased manufacturing costs and lower pricing.

Gamesa and Canada, both acquired mid-year 1992, posted volume-driven profit growth for the comparable period since acquisition; i.e., the second half of 1993 vs. 1992. Acquisition activity, which includes only the results for the first half of 1993 for Gamesa and Canada, did not, however, significantly affect the full year international profit comparison, as losses at Gamesa offset profits contributed by Canada and other smaller acquisitions. Gamesa posted a profit for the full year despite the first half loss.

1992 vs. 1991

Worldwide net sales rose 17% to \$6.1 billion. Comparisons are impacted by the effect of international acquisitions, consisting principally of the 1992 Gamesa (Mexico) and Hostess Frito-Lay (Canada) transactions as well as the buyout of the joint venture partner at the Arnott's (Australia) snack chip business and the securing of a controlling interest in the Wedel (Poland) confectionary business, both in 1991,

combined with the absence of results in 1992 of the business in Japan (collectively, "net acquisitions"). Net acquisitions contributed 11 points to worldwide sales growth.

Domestic sales grew \$213 million or 6% to \$4.0 billion. The domestic increase was driven by volume growth, which contributed about \$265 million, partially offset by the impact of lower gross prices and an unfavorable package size mix shift. The lower gross prices were mitigated by a decline in promotional price allowances to retailers, which are reported as marketing expenses.

Total domestic pound sales advanced 7%, led by Lay's and Ruffles brands potato chips, Tostitos brand tortilla chips and SunChips brand multigrain snacks. These increases were partially offset by a decline in Santitas and Doritos brands tortilla chips, Fritos brand corn chips and Chee-tos brand cheese flavored snacks. The relative performances of potato and corn products in 1992 were due partly to a weather-related potato crop shortage in 1991.

International sales rose \$670 million or 44% to \$2.2 billion. Net acquisitions contributed \$595 million or 39 points of international sales growth. The balance of the sales growth was driven by higher prices, partially offset by an estimated \$15 million impact of lower volumes. Systemwide snack chip volume, including both the consolidated businesses and joint ventures, grew 2% led by double-digit growth in the recently acquired Canadian affiliate.

Worldwide operating profits increased 30% to \$1.0 billion. Excluding unusual items in both 1992 and 1991, profits increased 19%. Net acquisitions added 6 points to worldwide profit growth.

Unusual items in 1992 totaled \$71.1 million, comprised of \$40.3 million in international charges for restructuring actions, the largest component of which

was for consolidating and streamlining the Smiths and Walkers businesses in the U.K., and \$30.8 million in incremental expenses due to adopting the new accounting rules for retiree health benefits (\$28.2 million, almost all domestic) and income taxes (\$2.6 million, all international). See the 1993 vs. 1992 discussion for the status of the 1992 international restructuring actions as of year-end 1993. Unusual charges in 1991 totaled \$127 million, comprised of \$91.4 million and \$35.6 million for restructuring actions designed primarily to streamline operations of the domestic and international snack food businesses, respectively. Approximately \$64 million of the domestic charge related to administrative workforce reorganizations and reductions, and the balance related to product line and production capacity reductions. The international charge included \$23.6 million related to productivity initiatives in the U.K., including facility closures and streamlining of selling and administrative processes.

The costs provided for in these domestic and international restructuring actions and the related savings are principally of a cash nature. These actions have been the primary source of annual productivity savings approximating \$115 million (\$100 million for domestic and \$15 million for international), providing additional resources for reinvestment in the businesses to strengthen competitive positions. The international charge also included \$12 million related to the probable disposition of the business in Japan. In 1993, a decision was made to retain this business, resulting in a \$6.1 million credit.

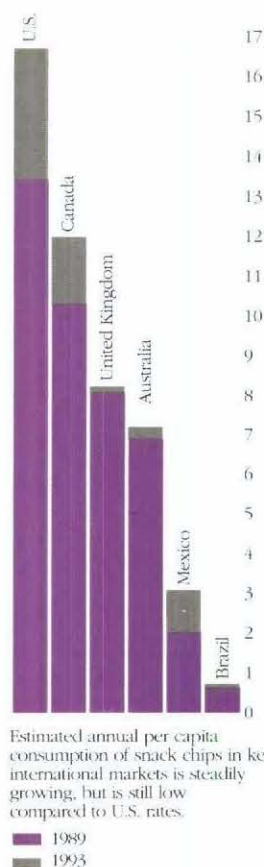
Domestic profits rose 26% to \$776 million. Excluding the 1992 and 1991 unusual items, profits increased \$96 million or 13%. Volume gains contributed about \$160 million to profit growth. Raw material savings, reflecting lower

costs for potatoes, packaging and cooking oils, and lower administrative expenses resulting from the 1991 restructuring actions also aided profit growth. The favorable comparison for potato costs, which in 1992 were at the lowest level in the previous five years, reflects the 1991 cost increase resulting from a weather-related crop shortage. These benefits were partially offset by higher operating expenses and other manufacturing costs, including costs associated with improving potato chip quality. An unfavorable sales mix shift as well as lower net prices, reflecting lower gross prices that exceeded the impact of a lower level of promotional price allowances, also hampered profit growth. The domestic profit margin, excluding the 1992 and 1991 unusual items, rose nearly one and one-half points to 20.3%.

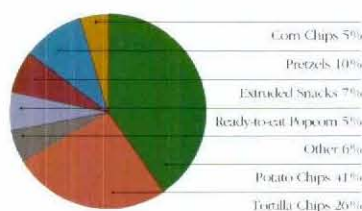
International profits increased 49% to \$209 million. Excluding the 1992 and 1991 unusual items, profits increased \$77 million or 44%. Net acquisitions contributed \$52 million or 30 points of international profit growth. The balance of profit growth reflected price increases that exceeded higher operating costs, partially offset by an estimated \$10 million impact of lower volumes. Double-digit profit growth at Sabritas and in the U.K. was partially offset by a decline in Brazil, due primarily to lower volumes. Profit growth at Sabritas primarily reflected price increases that exceeded higher costs. In the U.K., the combined benefit of price increases and the 1992 cost savings from the restructuring actions announced last year was offset by higher product costs and the impact of lower volumes. As a result, the profit growth was driven by lower pension expense representing the catch-up effect arising from the final settlement of pension assets related to the 1989 acquisition of the U.K. operations. The international profit margin, excluding the 1992 and 1991 unusual items, was unchanged at 11.6%.

International Snack Chip Consumption Growth 1989 vs. 1993

(U.S. Per Capita)

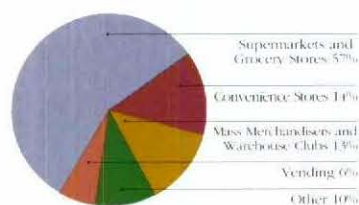


U.S. Snack Chip Categories



Frito-Lay holds the leading market share in all major snack chip categories.

U.S. Snack Chip Channels of Distribution



Frito-Lay sales in all major distribution channels grew faster than industry rates.

Each day in the U.S. more than one billion meals and snacks are eaten. Our system serves about 2% of them. We define “opportunity” as the other 98%.



Chairman's Perspective

I'm very optimistic about our restaurant business. We already have more units than any other system in the world. And like our little koala friend, we're growing bigger each day. But unlike its mother, who someday will send her bundle of joy packing, we view nurturing as a continual process.

In 1993, for example, careful nurturing and an investment of \$1.6 billion for capital projects and acquisitions helped raise sales to over \$9 billion and profits to nearly \$780 million. But with so many great opportunities ahead of us, we think that's really just a start.

We do a lot of things right to keep 17 million customers happy in our system's restaurants all over the world each day. But to raise that number to 20, or 40, or 50 million, we're focusing our energy, creativity and financial resources on four main strategies:

- Adapting to changing tastes,
- Making our products more available,
- Exploring new industry concepts, and
- Aggressively developing international markets.

Let me tell you why these are so important to our growth.

Adapting to Changing Tastes

No restaurant company on earth has a stable of brands as powerful and broadly appealing as ours. The simple fact that our systems are so big means that successful major new products can drive huge volume—and profits—almost immediately. By watching consumer trends like a hawk, and generating an almost constant flow of exciting new products, we're driving sales and opening up dramatic new avenues for growth.

To satisfy consumer demand for alternatives to fried chicken, for example, KFC in 1993 introduced Colonel's Rotisserie Gold roasted chicken in the U.S., which boosted customer traffic. Even better, it put us in the emerging nonfried chicken

market—with opportunity by the bucketful.

When hungry pizza fans in the U.S. said they wanted more for less, Pizza Hut introduced BIGFOOT Pizza, a two-square-foot pie. Bigfoot generated some \$525 million in U.S. system sales in 1993, and served as our admission ticket to the \$6 billion value segment of the pizza market.

Making Our Products More Available

Some people think there are a lot of restaurants around. After all, we're adding a unit to our system every four hours somewhere in the world. But have you ever noticed how often they're not there when you're hungry?

The fact is, even in a highly-developed market like the U.S., there's still lots of room to grow by building traditional restaurants. Taco Bell, for example, has plenty of room to expand in areas like the Northeast.

But entirely new kinds of outlets give us, our franchisees and our other business partners the means to offer our products in many new places. Low-cost carts and kiosks allow us to sell pizza, tacos and chicken in schools, hotels, airports, stadiums, office buildings, grocery stores—just about anyplace you can imagine.

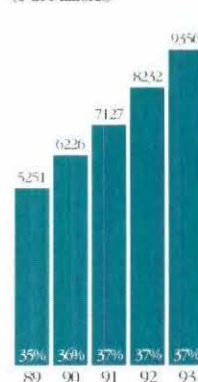
For those who can't get to a restaurant, cart or kiosk—or don't want to—there's delivery. For the Pizza Hut system, delivery is a more than \$1.7 billion business in the U.S., which in 1993 grew 16%.

Exploring New Industry Concepts

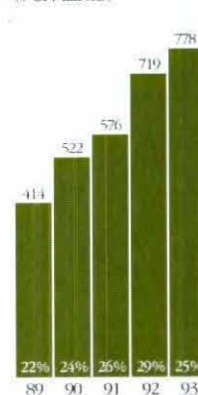
In an industry as dynamic as restaurants, trends can be dramatic and sweeping. We watch the industry as closely as anyone, but it's still hard to know for sure where the next great opportunity will be. What we do know, though, is that we want to be part of it.

In our continuing quest to find the next Pizza Hut or Taco Bell or KFC, we're exploring a variety of exciting ideas—and learning a lot in the process. In 1990, for exam-

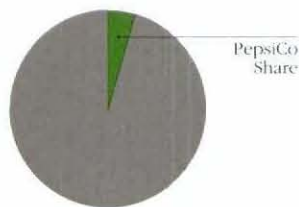
**Restaurants
Net Sales**
% of Total Net Sales
(\$ in Millions)



**Restaurants
Operating Profits**
% of Total Segment
Operating Profits
(\$ in Millions)

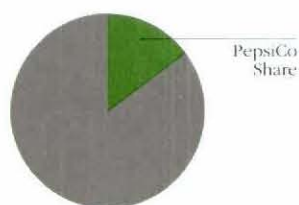


U.S. Foodservice Industry Retail Sales PepsiCo Share



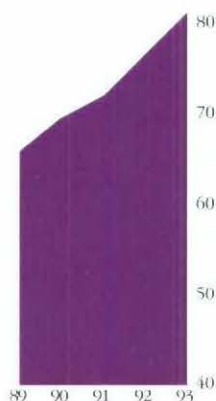
PepsiCo U.S. restaurant system sales represented about 5% of the total \$265 billion foodservice industry.

U.S. Quick Service Restaurant Retail Sales PepsiCo Share



PepsiCo U.S. restaurant system sales of \$12 billion represented nearly 15% of quick service restaurant sales. The market leader holds 18%.

U.S. Quick Service Restaurant Sales (\$ in Billions)



U.S. quick service restaurant sales reached nearly \$81 billion.

ple, we acquired Hot 'n Now, a U.S. value hamburger chain. More recently, we've made investments in several small "casual dining" chains in the U.S. These are reasonably-priced, sit-down places. Our first was California Pizza Kitchen, in 1992, specializing in creative wood-fired pizzas. In 1993, we acquired Chevys, a Mexican-style chain focused on fresh ingredients, and East Side Mario's, which offers Italian-style meals. In 1993, we also acquired D'Angelo Sandwich Shops, which are beginning to offer Pizza Hut pizza.

We're working closely with all these new members of the family and doing lots of pinching and tweaking. It's still tough to say who might be the next global restaurant juggernaut. But like any proud parent, we think we'll be the first to spot star potential.

Aggressively Developing International Markets

Our greatest opportunities of all may lie outside the U.S. where there's only one of our system's restaurants for every 800,000 people, compared with one per 14,000 people in the U.S.

It's all the more compelling when you think that our products already have proven almost universally appealing. With PepsiCo system restaurants operating in 88 countries, we know there's hardly a soul on earth who wouldn't enjoy some form of chicken or pizza.

Our greatest challenge internationally is making our products affordable to everyone. In the U.S., it takes a worker about 15 minutes to earn enough to buy one of our meals. In other countries, though, it can take much, much longer. In Australia, for example, it takes nearly 25 minutes—too long in that highly competitive market.

Rising standards of living in developing countries will help open our doors to millions more people. But we're not willing to wait. By aggressively managing our costs, we think we can make

our products affordable to a substantially broader segment of the population in many countries. For example, PFS, our supply company, opened distribution centers in Mexico and Puerto Rico in 1993, and began working with restaurant managers in other markets to find the best food and supplies at the lowest prices.

So, to me, the future of our restaurant business is very promising. A continual flow of new products, new ways to reach consumers, emerging industry concepts and the burgeoning international market together make for almost limitless growth potential. More important, we've got the strategies to make it all happen.

Now, here's our management's analysis to give you more details.

Management's Analysis

(See "Management's Analysis—Overview" on page 24 for background information and "Business Segments" on page 27 for detailed results. For purposes of this analysis, the net sales and operating profits of the franchisee operations of PFS, PepsiCo's restaurant distribution operation, have been allocated to each restaurant chain.)

1993 vs. 1992

Worldwide net sales rose \$1.1 billion or 14% to \$9.4 billion. This advance was driven by additional units (units constructed or acquired, principally from franchisees, net of units closed or sold), which contributed \$913 million. Volume growth, led by domestic Pizza Hut, provided about \$175 million of the sales advance. Domestic sales grew \$910 million or 13% to \$8.0 billion and international sales rose \$213 million or 19% to \$1.3 billion. The unfavorable currency translation impact of a stronger U.S. dollar depressed international sales growth by \$73 million or 7 points.

Worldwide operating profits grew \$60 million or 8% to \$778 million. Additional units provided \$89 million and volume growth contributed about \$75 million to the profit increase. Increased

operating costs were partially offset by modestly higher net pricing (principally at domestic KFC) and increased franchise royalty revenues. Domestic profits rose \$87 million or 15%, while international profits declined \$28 million or 23% reflecting weakness in Australia.

Pizza Hut's worldwide sales increased \$525 million or 15% to \$4.1 billion. The domestic operations represent the major portion of worldwide Pizza Hut. Additional units contributed \$392 million to the worldwide sales increase. Volume growth provided about \$140 million, driven by strong domestic gains resulting from the national rollout of the new value-priced Bigfoot Pizza in the second quarter.

Comparable sales for domestic company-owned units (same store sales) advanced 5%, though volume growth was slightly higher. This performance reflected growth in all three distribution channels: delivery, carryout and dine-in. Improved sales in both delivery and carryout were driven by the success of Bigfoot. The growth in dine-in reflected the impact of the third quarter 1992 rollout of the all-you-can-eat pizza and salad lunch buffet. Results late in 1993 indicate a softening of same store sales trends in dine-in due primarily to lapping last year's rollout of the lunch buffet.

Pizza Hut's worldwide profits advanced \$37 million or 11% to \$372 million. This profit performance reflected about \$55 million from volume growth, \$41 million from additional units, increased franchise royalty revenues and higher international net pricing. These benefits were partially offset by increased store operating costs as well as administrative and support expenses, which included the start-up costs associated with Bigfoot. Bigfoot contributed significantly to U.S. profit growth as incremental volume, net of estimated cannibalization of other products,

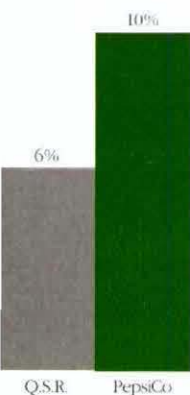
Restaurant Family Tree

PepsiCo company-owned, joint venture, franchised and licensed restaurants are in 88 countries and territories. PFS is our restaurant supply company.



**Total System Retail Sales:
\$17.4 Billion**

U.S. Quick Service Restaurant Sales Growth vs. PepsiCo System Growth



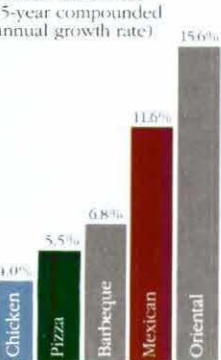
PepsiCo U.S. restaurant system sales grew 10%, compared with industry quick service restaurant sales growth of 6%.

Largest Worldwide Restaurant Systems (Units in Thousands)



Combined Pizza Hut, Taco Bell and KFC units make PepsiCo the largest restaurant system in the world.

Fastest-Growing U.S. Quick Service Restaurant Segment Sales Growth (5-year compounded annual growth rate)



PepsiCo's restaurant segments—pizza, Mexican-style and chicken—are among the largest and fastest-growing quick service restaurant segments.

more than offset the effect of the product's lower margin and the start-up costs. Prices for cheese have fluctuated significantly in recent years. Lower cheese costs in 1993 were offset by higher meat and produce costs. The effect of these increasing costs was exacerbated by a sales mix shift to more heavily-topped pizzas and the lunch buffet. Though difficult to forecast, commodity costs (led by cheese) are expected to increase. The worldwide profit margin declined almost one-half point to 9.0% due to lower international profits.

Pizza Hut's international sales posted double-digit growth driven by additional units in several markets, including Canada, Belgium, Australia, Spain and Puerto Rico. This benefit, combined with higher net pricing and increased franchise royalty revenues, was partially offset by an unfavorable currency translation impact, principally in Australia and Canada. International profits declined slightly, primarily reflecting an unfavorable currency translation impact. The contributions of the additional units, higher net pricing and increased franchise royalty revenues were largely offset by higher operating expenses, principally development and support costs.

In the largest sales markets, profits declined in Australia, but rose in Canada. Australia's performance reflected lower volumes, despite introduction of Bigfoot Pizza in the third quarter, and intense competitive pricing activity. To provide even greater value and stimulate volume growth in 1994, a more heavily-topped Bigfoot was relaunched late in 1993 and a new value-oriented menu will be introduced. Canada's profit growth reflected higher net pricing, additional units and volume growth. A product similar to Bigfoot, launched in the third quarter, contributed to improved results.

Taco Bell's worldwide sales grew \$441 million or 18% to \$2.9

billion. The domestic operations represent substantially all of worldwide Taco Bell. The worldwide sales increase was driven by additional units, which contributed \$364 million, including \$78 million from additional Hot 'n Now units and the acquired Chevys units. The balance of the sales growth reflected the impact of higher store volumes, partially offset by lower distribution sales by PFS caused by the late 1992/early 1993 switch to another supplier by certain franchisees. Same store sales for Taco Bell units rose 6% due to volume growth.

Taco Bell's worldwide profits increased \$39 million or 18% to \$253 million. Additional units contributed \$35 million and volume growth provided about \$25 million. These benefits, combined with higher franchise royalty revenues and a small decline in food and promotional costs, were partially offset by increased headquarters administrative and support expenses. Profit growth was depressed by increased losses at Hot 'n Now, reflecting costs associated with a decision not to develop certain sites as well as losses at new units. The worldwide profit margin was even at 8.7%. Profits in 1994 are expected to be aided by a late 1993 price increase for certain soft drink sizes.

Taco Bell's international operations posted double-digit sales growth and a small loss compared to a small profit in 1992, reflecting increased development and support costs, as well as costs associated with a store closure in the U.K.

KFC's worldwide sales rose \$157 million or 7% to \$2.3 billion. Additional units, principally in international markets, contributed \$158 million to sales growth. Higher domestic net pricing and increased franchise royalty revenues also aided sales growth. Sales growth was depressed by an unfavorable currency translation impact of \$39 million or 2 points, as well as lower store volumes.

KFC's worldwide profits

decreased \$16 million or 9% to \$153 million as lower international profits were partially offset by an increase domestically. The worldwide profit decline reflected higher store operating costs, which included start-up costs associated with the rollout of the new roasted chicken products in the U.S. and Australia, and increased international administrative and support expenses, partially offset by the higher net pricing and increased franchise royalty revenues. The contribution from additional units of \$13 million was partially offset by the impact of lower volumes. The worldwide profit margin fell over one point to 6.6% due to lower international profits.

Improvement in KFC's domestic sales reflected additional units and higher net pricing, principally from a lower level of price discounting, partially offset by lower store volumes. Same store sales were about even with last year. The introduction of the Colonel's Rotisserie Gold roasted chicken product and accompanying side items (collectively "CRG") late in the year contributed significantly to strong same store sales growth in the fourth quarter of 1993.

Domestic profits grew at a high single-digit rate reflecting the higher net pricing that exceeded increased store operating costs. This benefit, combined with the impact of additional units and higher franchise royalty revenues, was partially offset by the effect of lower volumes. The profit performance also reflected a favorable adjustment of the 1991 restructuring accrual. For the year, the benefits from incremental volume of CRG, net of estimated cannibalization of other products, were more than offset by the effect of CRG's lower margin and the start-up expenses for the rollout. However, CRG contributed significantly to profit growth in the fourth quarter of 1993.

KFC's international sales posted double-digit growth, driven by additional units in Singapore, Canada and Mexico, partially off-

set by an unfavorable currency translation impact. A double-digit decline in profits was caused principally by Australia, the largest sales market. Increased administrative and support costs also contributed to the profit decline.

Australia's performance was depressed by the start-up expenses associated with its new value-priced TenderRoast chicken product, the combined impact of the product's lower margin and its greater than expected cannibalization of other higher-margin products and an overall decline in volumes. Initiatives are underway to drive incremental sales of TenderRoast. Canada, the next largest sales market, posted a relatively modest decline in profits reflecting lower volumes and competitive pricing activity. To improve results in 1994 for both Australia and Canada, KFC is introducing new value-oriented menus and expects to roll out delivery.

KFC's international sales represented about 30% of KFC's worldwide sales in 1993 and 1992. International profits represented about 40% of worldwide profits in 1993 and 50% in 1992.

1992 vs. 1991

Worldwide net sales rose \$1.1 billion or 16% to \$8.2 billion. Additional units contributed \$936 million to this growth. Higher net prices and volume growth also aided the sales gain. Domestic sales grew \$857 million or 14% to \$7.1 billion and international sales rose \$248 million or 29% to \$1.1 billion. An unfavorable currency translation impact depressed international sales growth by \$35 million or 4 points.

Worldwide operating profits grew 25% to \$719 million. Profits in 1992 were reduced by \$15.4 million due to adopting the new accounting rules for retiree health benefits and income taxes. Profits in 1991 included \$43 million in KFC unusual charges described below. Excluding these 1992 and 1991 unusual items, worldwide profits rose \$115 million or 19%,

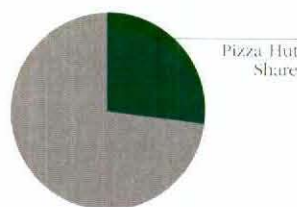
driven by \$108 million from additional units. Higher franchise royalty revenues were offset by increased operating costs that exceeded higher net prices. Domestic profits grew \$91 million or 17%, excluding the unusual items, and international profits rose \$25 million or 25%.

Pizza Hut's worldwide sales increased \$345 million or 11% to \$3.6 billion. Additional units, led by delivery units, contributed \$343 million to this increase. The benefit of higher net prices, which reflected a lower level of price promotions in the first half of 1992, was offset by an estimated \$95 million impact of lower volumes. Same store sales were even with 1991 though volumes declined. This performance reflected slowing growth in delivery offset by declines in carryout. Although dine-in same store sales were about even, trends improved due to the introduction of the lunch buffet. At year-end 1992, the buffets were in about 2,100 units or about 75% of domestic company-owned dine-in units.

Pizza Hut's worldwide profits grew 7% to \$335 million. Excluding the unfavorable \$7.3 million impact (almost all domestic) of the 1992 accounting rule changes, profits rose \$28 million or 9%. This growth was driven by additional units, which contributed \$31 million. An estimated \$40 million impact of lower volumes was largely offset by higher net prices that exceeded increased food (including cheese) and other operating costs as well as increased franchise royalty revenues. The profit performance also reflected total domestic field and headquarters administrative and support expenses that were about even with last year. The worldwide profit margin, excluding the impact of the accounting rule changes, was about even at 9.5%.

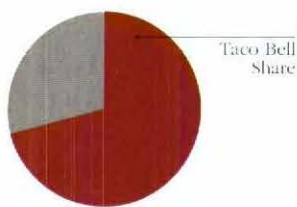
Pizza Hut's international sales posted double-digit growth led by additional units in Canada, Australia and Puerto Rico. Double-digit profit growth reflected the additional units and

U.S. Pizza Quick Service Restaurant Segment Pizza Hut Share



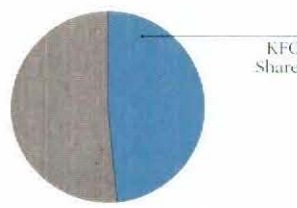
With U.S. system sales of \$4.8 billion, or more than 25% of the segment, Pizza Hut led the nearly \$18 billion pizza restaurant segment.

U.S. Mexican-Style Quick Service Restaurant Segment Taco Bell Share



With U.S. system sales of \$3.8 billion, Taco Bell has more than 70% of the \$5.2 billion Mexican-style quick service restaurant segment, but only 9% of the \$42 billion sandwich restaurant segment, which includes hamburger chains.

U.S. Chicken Quick Service Restaurant Segment KFC Share



With U.S. system sales of \$3.4 billion, KFC has about half of the \$7.0 billion chicken restaurant segment.

Restaurant Unit Growth

Number of System Units Worldwide (Year-end 1988-1993)

Year	Pizza Hut	Taco Bell	KFC	Total
1988	6,662	2,930	7,761	17,353
1989	7,502	3,125	7,948	18,575
1990	8,220	3,349	8,187	19,756
1991	8,837	3,670	8,480	20,987
1992	9,454	4,153	8,729	22,336
1993	10,433	4,921	9,033	24,387
Five-Year Compounded Annual Growth Rate				
	9.4%	10.9%	3.1%	7.0%

Number of System Units Worldwide (Year-end 1993)

	Pizza Hut	Taco Bell	KFC	Total
United States				
Company	4,845	3,006	2,048	9,899
Franchised	2,760	1,456	3,015	7,231
Licensed	533	347	65	945
Total U.S.	8,138	4,809	5,128	18,075
International				
Company	776	68	860	1,704
Joint Venture	422	-	455	877
Franchised/				
Licensed	1,097	44	2,590	3,731
Total International	2,295	112	3,905	6,312
Total Worldwide	10,433	4,921	9,033	24,387

Unit totals include 629 kiosks (primarily Pizza Hut) and 799 other special concepts (mostly carts and express units), as well as the following U.S. chains: D'Angelo Sandwich Shops (Pizza Hut)—127 company and 40 franchised, East Side Mario's (Pizza Hut)—6 franchised, Hot 'n Now (Taco Bell)—205 company and 41 franchised and Chevys (Taco Bell)—41 company. Unit totals do not include California Pizza Kitchen—40 company, 2 joint venture and 2 franchised, all U.S.

Restaurant Sales Growth

(Compounded annual growth rates)

Average Domestic System Sales Per Unit (Thousands)*

	1988	1989	1990	1991	1992	1993	5-Year % Growth
PH	\$520	\$570	\$607	\$613	\$612	\$651	4.6
TB	589	686	771	814	866	925	9.4
KFC	597	607	650	675	684	685	2.8

*Excludes sales from kiosks and other special concepts, D'Angelo Sandwich Shops, East Side Mario's, Hot 'n Now, Chevys and California Pizza Kitchen.

Worldwide System Sales 1988-1993 (Billions)

	1988	1989	1990	1991	1992	1993	5-Year % Growth
PH	\$ 3.4	\$ 4.1	\$ 4.9	\$ 5.3	\$ 5.7	\$ 6.4	13.5
TB	1.6	2.1	2.4	2.8	3.3	3.9	19.5
KFC	5.0	5.4	5.8	6.2	6.7	7.1	7.3
Total	\$10.0	\$11.6	\$13.1	\$14.3	\$15.7	\$17.4	11.7

Worldwide System Sales 1993 (Billions)

	Pizza Hut	Taco Bell	KFC	Total
Domestic	\$4.8	\$3.8	\$3.4	\$12.0
International	1.6	.1	3.7	5.4
Total	\$6.4	\$3.9	\$7.1	\$17.4

higher franchise royalty revenues. Volume declines resulted in slightly lower profits in Australia.

Taco Bell's worldwide sales rose \$422 million or 21% to \$2.5 billion. Additional units contributed \$248 million to this advance and volume gains provided about \$150 million. Same store sales grew 6% due to volume growth.

Taco Bell's worldwide profits grew 19% to \$214 million. Excluding the unfavorable \$2.9 million impact (all domestic) of the 1992 accounting rule changes, profits rose \$37 million or 20%. Of this increase, volume growth contributed about \$40 million and additional units provided \$32 million. These benefits, as well as higher franchise royalty revenues, were partially offset by higher labor and other store operating costs and increased headquarters expenses for the development of new systems and concepts, including costs to support Hot 'n Now. The worldwide profit margin, excluding the impact of the accounting rule changes, was even at 8.8%.

Taco Bell's international operations posted double-digit sales growth and a small profit compared to a small loss in 1991. This performance was led by volume growth in Canada.

KFC's worldwide sales rose \$338 million or 18% to \$2.2 billion. This increase was driven by additional units, which contributed \$345 million.

KFC's worldwide profits rose 110% to \$169 million. Profits in 1992 were reduced by \$5.2 million in incremental expenses (\$3.9 million for domestic and \$1.3 million for international) resulting from the accounting rule changes. Profits in 1991 included a \$34 million unusual charge primarily for a restructuring of domestic processes to improve overall productivity and customer service. The charge included costs for the elimination of certain positions, relocation of personnel and closing of offices.

The costs provided and the related savings are principally of a cash nature. As originally pro-

jected, these actions have resulted in annual savings of about \$25 million, providing additional resources for reinvestment in the business to strengthen competitive positions. Profits in 1991 also included a \$9 million domestic unusual charge associated with the delay of the U.S. rollout of Skinfree Crispy. The charge included payments to suppliers for unrecovered start-up costs and unused capacity costs due to lower than anticipated 1991 production levels. Excluding these 1992 and 1991 unusual items, worldwide profits rose \$51 million or 41%, of which additional units provided \$46 million. The worldwide profit margin, excluding the impact of the 1992 and 1991 unusual items, rose over one point to 8.0% due to improved domestic results.

Double-digit growth in KFC's domestic sales was driven by additional units. Same store sales were even with 1991 though volumes were up slightly. A significant increase in domestic profits reflected the additional units, a sales mix shift to higher margin products such as Popcorn Chicken, lower headquarters administrative and support expenses resulting from restructuring actions, as well as the impact of higher volumes. These benefits were partially offset by a higher level of price promotions.

Double-digit sales growth in KFC's international operations was driven by additional units, particularly in Canada and Australia. Sales growth was depressed by an unfavorable currency translation impact. International profits grew at a double-digit rate due to higher franchise royalty revenues and growth in Canada and Mexico. Profits declined in Australia, reflecting lower volumes and an unfavorable currency translation impact. KFC's international sales represented about 30% of KFC's worldwide sales in both 1992 and 1991. International profits represented about 50% of worldwide profits in 1992 and 55% in 1991.

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Management's Analysis—Overview

To enhance understanding of PepsiCo's financial results, the various components of Management's Analysis are presented near the pertinent financial data. Accordingly, in addition to this overview, separate analyses of the results of operations, financial condition and cash flows appear on pages 31, 33 and 35, respectively. Also, the analysis of each industry segment's net sales and operating profit performance begins on pages 6, 12 and 18.

PepsiCo's principal objective is to increase the value of its shareholders' investment through integrated operating, investing and financing strategies that seek to maximize long-term cash flows. These strategies are continually fine-tuned to address the opportunities and risks of the global marketplace.

Marketplace Actions

PepsiCo's domestic and international businesses operate in markets that are highly competitive and subject to local economic influences such as inflation, commodity price fluctuations and governmental actions. In the U.S., for example, new economic policies targeted at reducing the federal budget deficit have resulted in higher taxes, and possible changes in the healthcare system may increase the future costs of providing benefits to employees. Additionally, several of PepsiCo's markets continue to be affected by recessionary pressures. PepsiCo's operating and investing strategies are designed to mitigate these factors through aggressive actions on several fronts including: (a) enhancing the appeal and value of its products through brand promotion, product innovation, quality improvement and prudent pricing actions, (b) providing better service to customers, (c) increasing worldwide availability of its products, (d) acquiring businesses and forming alliances to increase market presence and utilize resources more efficiently and (e) containing costs through more efficient and effective purchasing, manufacturing, distribution and administrative processes.

Restructurings

Restructuring initiatives, such as the major actions provided for in 1992 and 1991, have been and may continue to be a means to realign resources for more effective and efficient execution of operating strategies. These initiatives reflect PepsiCo's willingness to change in anticipation of, or adapt to, marketplace trends. The resulting cost savings help fund activities to enhance PepsiCo's competitive positions throughout the world. See Management's Analysis of beverage and snack food performance for discussion of significant restructuring charges and anticipated savings.

Cost of Capital

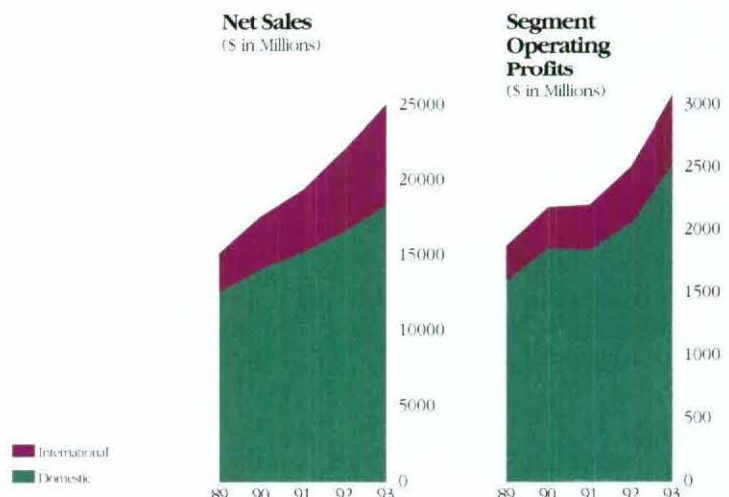
The cost of capital is a key measure in setting PepsiCo's investing and financing strategies. The cost of capital is a weighting of cost of debt and cost of equity, with the latter representing a measure of expected return to investors in PepsiCo's stock. PepsiCo seeks investments that generate cash returns in excess of its long-term cost of capital, which is currently estimated to be approximately 10%. Financial leverage, which refers to the management of the

debt and equity structure, is utilized by PepsiCo to optimize the overall cost of capital, considering the favorable tax treatment of debt. Prudent use of leverage, combined with PepsiCo's strong cash generating capability, provides the flexibility to aggressively invest in the business without significantly affecting PepsiCo's overall cost of capital. PepsiCo's strong financial condition provides continued access to capital markets throughout the world.

Currency Exchange Effects

In 1993, international businesses represented 18% of PepsiCo's total segment operating profits. Operating in international markets involves dealing with sometimes volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on PepsiCo is complex because it is linked to variability in real growth, inflation, interest rates and other factors. Because PepsiCo operates in a mix of businesses and numerous countries, management believes currency exposures are fairly well diversified. Moreover, management believes that currency exposures are not a significant factor in competition at the local market operating level. When economically appropriate, PepsiCo enters into foreign currency hedges to minimize cash flow transaction exposures discussed below. As international operations continue to expand and the number of cross-border transactions increases, PepsiCo intends to continue monitoring its currency exposures closely and take prudent actions as appropriate. The following paragraphs describe the effects of currency exchange rate movements on PepsiCo's reported results.

As currency exchange rates change, translation of the income statements of international businesses into U.S. dollars affects year-over-year comparability of operating results. In 1993, sales and operating profit growth rates for certain international businesses were depressed by the income statement translation effects of weaker European and Canadian currencies; however, consolidated results were not materially impacted.



For PepsiCo's key international operations, located in Australia, Canada, Japan, Mexico, Spain and the United Kingdom (U.K.), the translation effects of exchange rate movements on earnings have historically been largely offsetting. The effects on comparability of sales and operating profits arising from translation of the income statements of international businesses are identified, where material, in Management's Analysis of consolidated and segment operating results. These translation effects exclude the impact of businesses in highly inflationary countries, where the functional currency is the U.S. dollar.

Changes in currency exchange rates also result in foreign exchange gains and losses, reported as a component of unallocated expenses, net (see page 28). For 1993, 1992 and 1991, net foreign exchange losses totaled \$41.2 million, \$17.4 million and \$7.8 million, respectively. These reported amounts include net translation losses arising from remeasurement into U.S. dollars of the net monetary assets of businesses in highly inflationary countries, as well as net transaction losses. Cash flow transaction gains and losses arise from current assets such as receivables and short-term investments as well as payables (including debt) denominated in currencies other than a business' functional currency. In implementing strategies to minimize financing costs, the effects of expected currency exchange rate movements on debt and short-term investments are considered along with related interest rates in measuring effective net financing costs.

Beginning in 1993, Mexico is no longer categorized as highly inflationary. PepsiCo has not calculated the net foreign exchange loss that would have been reported in 1993 had businesses in Mexico been accounted for as highly inflationary; however, translation losses for businesses in Mexico were not a significant component of the above 1992 and 1991 amounts.

Accounting Changes in 1992

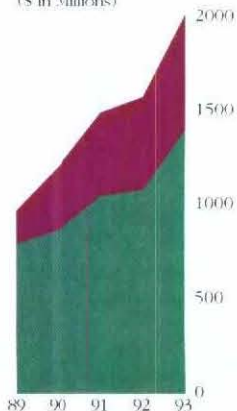
PepsiCo's financial statements reflect the noncash impact of the 1992 early adoption of two required Statements of Financial Accounting Standards, No. 106 "Employers' Accounting for Post-retirement Benefits Other Than Pensions" (SFAS 106) and No. 109 "Accounting for Income Taxes" (SFAS 109). The cumulative effect of adopting SFAS 106, a \$575.3 million charge (\$356.7 million after-tax or \$0.44 per share), represented estimated future retiree health benefit costs related to services provided by employees prior to 1992. As compared to the previous accounting method, the adoption of SFAS 106 reduced 1992 operating profit by \$52.1 million (\$32.3 million after-tax or \$0.04 per share). See Note 10 for additional details regarding the adoption of SFAS 106. The cumulative effect of adopting SFAS 109, a \$570.7 million tax charge (\$0.71 per share), primarily represented the recognition of additional deferred tax liabilities related to acquired identifiable intangible assets as of the beginning of 1992. As compared to the previous accounting method, the adoption of SFAS 109 reduced 1992 operating profit by \$20.7 million, but the provision for income taxes was lower by \$33.7 million, resulting in a \$13.0 million increase in net income (\$0.02 per share). See Note 13 for additional details regarding the adoption of SFAS 109.

U.S. Tax Legislation Enacted in 1993

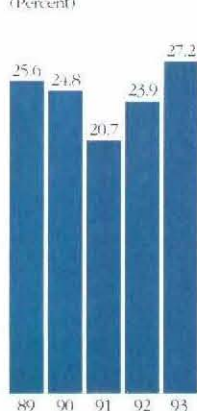
U.S. federal income tax legislation enacted in August 1993 includes provisions for a 1% statutory tax rate increase and the reinstatement of the Targeted Jobs Tax Credit (TJTC) program, both effective for the full year. The increase in the tax rate resulted in a noncash charge of \$29.9 million (\$0.04 per share) for the adjustment of net deferred tax liabilities, as required under SFAS 109. The 1993 provision for income taxes also included \$7.3 million (\$0.01 per share) for the effect of the tax rate increase on current year earnings, partially offset by the benefit of the TJTC reinstatement.

The new tax legislation also includes a provision, effective for PepsiCo beginning on December 1, 1994, to reduce the tax incentives associated with operations in Puerto Rico. This change will limit the tax benefit on income earned in Puerto Rico in the first year to 60% of the amount allowed under the previous tax law, with the limit further reduced ratably over the following four years to 40%. Had the provision become effective at the beginning of 1993, earnings for the year would have been reduced by approximately \$54 million or \$0.07 per share. This impact does not reflect any possible mitigating actions that PepsiCo is currently exploring.

Segment Capital Spending
(\$ in Millions)



Return on Average Shareholders' Equity*
(Percent)



*Based on income from continuing operations (before cumulative effect of accounting changes in 1992).

Certain Factors Expected to Impact 1994 Results

PepsiCo's 1994 results will reflect incremental noncash expense as a result of the required first quarter adoption of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (SFAS 112). See Note 12 for details regarding the adoption of SFAS 112.

In 1994, PepsiCo will also adopt an improved method for reflecting changes in the market-related value of its pension plan assets in the determination of annual pension expense. The noncash benefit in 1994 of adopting this change is expected to include a cumulative effect credit of approximately \$37.5 million (\$22.9 million after-tax or \$0.03 per share) related to years prior to 1994, and an estimated \$35.0 million (\$21.4 million after-tax or \$0.03 per share) in lower pension expense related to 1994 as compared to the current accounting method. See Note 11 for additional details regarding the adoption of this change.

In determining the benefit obligation for pension and retiree health benefits for 1993 and related expense for 1994, PepsiCo lowered its assumed discount rates to reflect the recent decline in interest rates. The total anticipated impact of lower discount rates is an estimated \$50.8 million (\$31.0 million after-tax or \$0.04 per share) noncash increase in pension and retiree health benefits expense in 1994. See Notes 10 and 11 for additional details regarding the changes in assumed discount rates.

Comparisons of 1994 to 1993 will also be affected by an additional week's results in the 1994 reporting period. PepsiCo's fiscal calendar results in a fifty-third week every 5 or 6 years. The estimated impact of the fifty-third week is approximately \$32.0 million (\$20.8 million after-tax or \$0.03 per share).

The Financial Accounting Standards Board (FASB) recently issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). SFAS 115, which must be adopted in 1994, requires the inclusion in income or shareholders' equity of unrealized gains and losses resulting from the fair value accounting of investments in debt and equity securities, except for debt securities intended to be held to maturity. The FASB has also issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" (SFAS 114). SFAS 114 specifies how allowances for credit losses related to troubled loans should be determined. PepsiCo expects to adopt SFAS 114 in 1995, as required. Although the impact of adoption of these new accounting rules has not yet been determined, PepsiCo does not expect either to have a material effect on results of operations or financial condition.

Potential U.S. Healthcare Legislation

A number of proposals to significantly reform the U.S. healthcare system are under consideration in Congress.

Management believes strongly in, and has worked hard for, healthcare reform. PepsiCo supports specific reforms that expand access to healthcare, reform the insurance market for small employers and individuals, and promote consumer education. PepsiCo is opposed to proposals that replace the competitive marketplace with a government-run healthcare system and employer mandates.

At this stage, it is not possible to determine the final timing or shape of healthcare reform in the U.S. Consequently, management cannot reasonably estimate the ultimate impact of healthcare reform on PepsiCo, or predict what specific actions PepsiCo might take in light of reform.



Business Segments

This information constitutes Notes 2 and 3 to the Consolidated Financial Statements. (dollars in millions)

PepsiCo operates on a worldwide basis within three industry segments: beverages, snack foods and restaurants. The beverage segment primarily markets its Pepsi, Diet Pepsi, Mountain Dew and other brands worldwide and 7UP internationally; and manufactures concentrates for its brands for sale to franchised bottlers worldwide. The segment also operates bottling plants and distribution facilities located in the U.S. and key international markets, and distributes ready-to-drink Lipton tea products under a joint venture agreement. In addition, under separate distribution and joint venture agreements, the segment distributes certain previously existing as well as jointly-developed Ocean Spray juice products. The snack food segment manufactures, distributes and markets chips and other snacks worldwide, with Frito-Lay representing the domestic business. The international snack food business includes major operations in Mexico, the United Kingdom (U.K.) and Canada. The restaurant segment consists primarily of the operations of the worldwide Pizza Hut, Taco Bell and KFC chains. PFS, PepsiCo's restaurant distribution operation, supplies company-owned and franchised restaurants principally in the U.S. For purposes of this presentation, the net sales and operating profits of PFS' franchisee operations have been allocated to each restaurant chain.

"Unallocated Expenses, net" includes the corporate headquarters expenses, equity in net income of affiliates, minority interests — primarily in the Gamesa (Mexico) and Wedel (Poland) snack food businesses, foreign exchange translation and transaction gains and losses and other corporate items not allocated to the business segments. "Corporate Assets" consist

principally of short-term investments held outside the U.S. and investments in affiliates.

PepsiCo has invested in about 70 joint ventures, principally international and all within PepsiCo's three industry segments, in which it exercises significant influence but not control. Equity in net income of these affiliates, which includes the 1992 unusual charge noted below, was \$30.1, \$40.1, and \$32.2 in 1993, 1992 and 1991, respectively. The decline in 1993 primarily reflects expansion costs in the beverage affiliate in India and lower margins at Snack Ventures Europe (SVE). International snack food affiliates, which represented the largest component of equity in net income of affiliates, contributed \$24.1, \$23.2 and \$20.5 in 1993, 1992 and 1991, respectively. Dividends received from affiliates totaled \$16.4, \$29.6 and \$32.6 in 1993, 1992 and 1991, respectively.

PepsiCo's year-end investments in affiliates totaled \$1.1 billion in 1993, \$904.9 in 1992 and \$1.1 billion in 1991. The increase in 1993 reflects investments in certain franchised bottling operations in Argentina and Mexico totaling \$179.0 and smaller investments in 15 new international joint ventures, partially offset by partner buyouts, and resulting consolidation, of franchised bottling affiliates in Spain and the Northwestern U.S. as well as the KFC U.K. joint venture. The decline in 1992 reflected consolidation of two international snack food affiliates, due to the securing of a controlling interest in the Gamesa cookie joint venture (Mexico) and the partner buyout of Hostess Frito-Lay (Canada), partially offset by investments in the California Pizza Kitchen (CPK) domestic casual dining restaurant chain and SVE. Significant investments in affiliates at year-end 1993 included \$223.4 in a Midwestern U.S. franchised bottler, \$156.7 in the KFC Japan joint venture, \$95.2 in a franchised bottler with operations in Argentina, Chile and Uruguay, \$86.8 in CPK and \$73.9 in SVE.

Unusual Items

Unusual charges in 1992 and 1991, principally for restructurings, totaled \$193.5 in 1992 and \$170.0 in 1991 as follows:

Beverages — 1992 includes \$145.0 in charges consisting of \$115.4 to reorganize and streamline domestic operations, and \$29.6 to streamline an acquired franchised bottling business in Spain and other international field operations.

Snack Foods — 1992 includes a \$40.3 charge principally to consolidate the Smiths and Walkers businesses in the U.K. 1991 includes \$127.0 in charges consisting of \$91.4 to streamline domestic operations, \$23.6 to streamline operations in the U.K. and \$12.0 to dispose of or reduce ownership in a small unprofitable business in Japan.

Restaurants — 1991 includes \$43.0 in charges at KFC consisting of \$34.0 to streamline operations and \$9.0 related to a delay in the U.S. rollout of a new product.

Unallocated Expenses, net — 1992 includes a \$8.2 charge to streamline operations of the SVE joint venture.

Impact of Accounting Changes on Comparability of 1992 to Prior Years

In 1992, PepsiCo adopted Statements of Financial Accounting Standards, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106) and "Accounting for Income Taxes" (SFAS 109). As compared to the previous accounting method, the adoption of SFAS 106 reduced 1992 operating profit

by \$52.1, decreasing beverage, snack food and restaurant profits by \$16.1, \$28.2 and \$6.1 (almost all domestic), respectively, and increasing 1992 unallocated expenses, net by \$1.7. As compared to the previous accounting method, the adoption of SFAS 109 reduced 1992 operating profit by \$20.7, decreasing beverage, snack food and restaurant profits by \$6.3, \$2.6 and \$9.3, respectively, and increasing 1992 unallocated expenses, net by \$2.5. (See Notes 10 and 13.)

Unusual items in 1990 and 1989 resulted in a total charge of \$83.0 in 1990 and a net credit of \$4.4 in 1989.

Included in operating profits for 1990 were charges for trade receivables exposures of \$10.5 in domestic beverages and \$10.6 in domestic snack foods, a \$17.6 charge for closure of certain underperforming restaurants (Pizza Hut — \$9.0, Taco Bell — \$4.0 and KFC — \$4.6) and reorganization charges of \$10.4 for Pizza Hut. Included in unallocated expenses, net was an \$18.0 charge for accelerated contributions to the PepsiCo Foundation and a \$15.9 charge to reduce the carrying value of an international Pizza Hut affiliate.

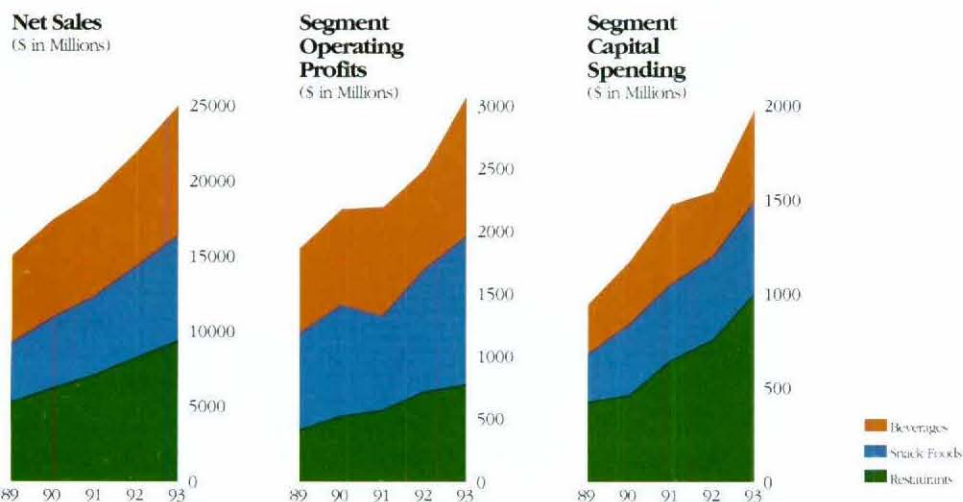
The net credit in 1989 consisted of a credit of \$32.5 in international beverages resulting from a decision to retain an operation previously held for sale, reorganization charges of \$12.3 in international beverages, \$8.0 at KFC and \$5.5 at Taco Bell and a \$2.3 net charge in domestic snack foods.

Industry Segments:		Net Sales					Operating Profits				
		1993	1992	1991	1990	1989	1993	1992	1991	1990	1989
Beverages:	Domestic	\$ 5,918.1	\$ 5,485.2	\$ 5,171.5	\$ 5,034.5	\$ 4,623.3	\$ 936.9	\$ 686.3	\$ 746.2	\$ 673.8	\$ 577.6
	International	2,720.1	2,120.4	1,743.7	1,488.5	1,153.4	172.1	112.3	117.1	93.8	98.6
		8,638.2	7,605.6	6,915.2	6,523.0	5,776.7	1,109.0	798.6	863.3	767.6	676.2
Snack Foods:	Domestic	4,365.3	3,950.4	3,737.9	3,471.5	3,211.3	900.7	775.5	616.6	732.3	667.8
	International	2,661.5	2,181.7	1,512.2	1,295.3	810.5	288.9	209.2	140.1	160.3	105.9
		7,026.8	6,132.1	5,250.1	4,766.8	4,021.8	1,189.6	984.7	756.7	892.6	773.7
Restaurants:	Domestic	8,025.7	7,115.4	6,258.4	5,540.9	4,684.8	685.1	597.8	479.4	447.2	356.5
	International	1,330.0	1,116.9	868.5	684.8	565.9	92.9	120.7	96.2	75.2	57.8
		9,355.7	8,232.3	7,126.9	6,225.7	5,250.7	778.0	718.5	575.6	522.4	414.3
Combined Segments:											
	Domestic	18,309.1	16,551.0	15,167.8	14,046.9	12,519.4	2,522.7	2,059.6	1,842.2	1,853.3	1,601.9
	International	6,711.6	5,419.0	4,124.4	3,468.6	2,529.8	553.9	442.2	353.4	329.3	262.3
		<u>\$25,020.7</u>	<u>\$21,970.0</u>	<u>\$19,292.2</u>	<u>\$17,515.5</u>	<u>\$15,049.2</u>	<u>\$3,076.6</u>	<u>\$2,501.8</u>	<u>\$2,195.6</u>	<u>\$ 2,182.6</u>	<u>\$1,864.2</u>
Unallocated Expenses, net							(170.1)	(130.6)	(83.8)	(140.5)	(91.6)
Operating Profit							<u>\$2,906.5</u>	<u>\$2,371.2</u>	<u>\$2,111.8</u>	<u>\$ 2,042.1</u>	<u>\$1,772.6</u>

Results by Restaurant Chain:											
Pizza Hut		\$ 4,128.7	\$ 3,603.5	\$ 3,258.3	\$ 2,949.9	\$ 2,453.5	\$ 372.1	\$ 335.4	\$ 314.5	\$ 245.9	\$ 205.5
Taco Bell		2,901.3	2,460.0	2,038.1	1,745.5	1,465.9	253.1	214.3	180.6	149.6	109.4
KFC		2,325.7	2,168.8	1,830.5	1,530.3	1,331.3	152.8	168.8	80.5	126.9	99.4
		<u>\$ 9,355.7</u>	<u>\$ 8,232.3</u>	<u>\$ 7,126.9</u>	<u>\$ 6,225.7</u>	<u>\$ 5,250.7</u>	<u>\$ 778.0</u>	<u>\$ 718.5</u>	<u>\$ 575.6</u>	<u>\$ 522.4</u>	<u>\$ 414.3</u>

Geographic Areas ^(a) :		Net Sales			Segment Operating Profits			Identifiable Assets		
		1993	1992	1991	1993	1992	1991	1993	1992	1991
United States		\$18,309.1	\$16,551.0	\$15,167.8	\$2,522.7	\$2,059.6	\$1,842.2	\$13,589.5	\$11,957.0	\$10,777.8
Canada and Mexico		2,819.5	2,214.2	1,434.7	324.8	251.0	198.7	2,581.1	2,395.2	917.3
Europe		1,819.0	1,349.0	1,170.3	47.4	52.6	30.9	2,666.1	1,948.4	2,367.3
Other		2,073.1	1,855.8	1,519.4	181.7	138.6	123.8	1,675.1	1,282.0	1,138.7
Total		<u>\$25,020.7</u>	<u>\$21,970.0</u>	<u>\$19,292.2</u>	<u>\$3,076.6</u>	<u>\$2,501.8</u>	<u>\$2,195.6</u>	<u>\$20,511.8</u>	<u>\$17,582.6</u>	<u>\$15,201.1</u>

(a) The results of centralized concentrate manufacturing operations in Puerto Rico and Ireland have been allocated based upon sales to the respective areas.



Industry Segments:			Identifiable Assets				
	1993	1992	1991		1993	1992	1991
Beverages	\$ 9,105.2	\$ 7,857.5	\$ 6,832.6	By Restaurant Chain:			
Snack Foods	4,994.5	4,628.0	4,114.3	Pizza Hut	\$ 2,232.9	\$1,676.8	\$1,454.3
Restaurants	6,412.1	5,097.1	4,254.2	Taco Bell	2,075.9	1,523.7	1,157.1
Corporate	3,194.0	3,368.6	3,574.0	KFC	2,103.3	1,896.6	1,642.8
Total	\$23,705.8	\$20,951.2	\$18,775.1		\$6,412.1	\$5,097.1	\$4,254.2
Capital Spending ^(b)							
	1993	1992	1991		1993	1992	1991
Beverages	\$ 491.3	\$ 343.7	\$ 425.8	By Restaurant Chain:			
Snack Foods	491.4	446.2	406.0	Pizza Hut	\$ 295.0	\$ 212.8	\$ 214.7
Restaurants	1,004.4	757.2	648.4	Taco Bell	459.4	339.0	230.5
Corporate	20.8	18.0	4.1	KFC	250.0	205.4	203.2
Total	\$ 2,007.9	\$ 1,565.1	\$ 1,484.3		\$1,004.4	\$ 757.2	\$ 648.4
Domestic	\$ 1,388.0	\$ 1,069.0	\$ 1,036.9				
International	619.9	496.1	447.4				
Total	\$ 2,007.9	\$ 1,565.1	\$ 1,484.3				
Acquisitions and Investments in Affiliates ^(c)							
	1993	1992	1991		1993	1992	1991
Beverages	\$ 711.5	\$ 717.5	\$ 285.2	By Restaurant Chain:			
Snack Foods	75.5	201.3	47.7	Pizza Hut	\$ 312.9	\$ 247.7	\$ 103.1
Restaurants	588.7	480.4	470.7	Taco Bell	186.8	72.4	52.3
				KFC	89.0	160.3	315.3
Total	\$ 1,375.7	\$ 1,399.2	\$ 803.6		\$ 588.7	\$ 480.4	\$ 470.7
Domestic	\$ 757.3	\$ 549.5	\$ 608.3				
International	618.4	849.7	195.3				
Total	\$ 1,375.7	\$ 1,399.2	\$ 803.6				
Amortization of Intangible Assets							
	1993	1992	1991		1993	1992	1991
Beverages	\$ 157.4	\$ 137.6	\$ 118.3	By Restaurant Chain:			
Snack Foods	40.9	40.5	35.9	Pizza Hut	\$ 44.7	\$ 33.3	\$ 25.6
Restaurants	105.4	87.8	54.1	Taco Bell	23.0	16.4	11.4
				KFC	37.7	38.1	17.1
Total	\$ 303.7	\$ 265.9	\$ 208.3		\$ 105.4	\$ 87.8	\$ 54.1
Depreciation Expense							
	1993	1992	1991		1993	1992	1991
Beverages	\$ 358.5	\$ 290.6	\$ 251.7	By Restaurant Chain:			
Snack Foods	279.2	251.2	215.8	Pizza Hut	\$ 193.4	\$ 150.5	\$ 136.6
Restaurants	457.2	374.3	324.4	Taco Bell	124.6	101.5	82.5
Corporate	6.6	6.9	8.1	KFC	139.2	122.3	105.3
Total	\$ 1,101.5	\$ 923.0	\$ 800.0		\$ 457.2	\$ 374.3	\$ 324.4

(b) Includes noncash amounts related to capital leases, largely in the restaurant segment, of \$26.3 in 1993, \$15.5 in 1992 and \$26.5 in 1991.

(c) Includes noncash amounts related to treasury stock and debt issued in domestic transactions of \$364.5 in 1993, \$189.5 in 1992 and \$162.7 in 1991. Of these noncash amounts, 65%, 58% and 8%, respectively, related to the beverage segment and the balance related to the restaurant segment.

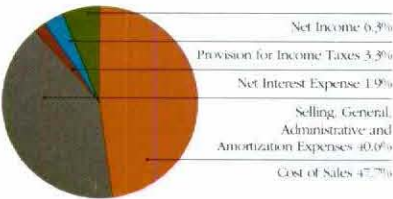
Consolidated Statement of Income

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fifty-two weeks ended December 25, 1993, December 26, 1992 and December 28, 1991

	1993	1992	1991
Net Sales	\$25,020.7	\$21,970.0	\$19,292.2
Costs and Expenses, net			
Cost of sales	11,946.1	10,611.7	9,366.2
Selling, general and administrative expenses	9,864.4	8,721.2	7,605.9
Amortization of intangible assets	303.7	265.9	208.3
Operating Profit	2,906.5	2,371.2	2,111.8
Interest expense	(572.7)	(586.1)	(613.7)
Interest income	88.7	113.7	161.6
Income Before Income Taxes and Cumulative Effect of Accounting Changes	2,422.5	1,898.8	1,659.7
Provision for Income Taxes	834.6	597.1	579.5
Income Before Cumulative Effect of Accounting Changes	1,587.9	1,301.7	1,080.2
Cumulative Effect of Change in Accounting for Postretirement Benefits Other Than Pensions (net of income tax benefit of \$218.6)	—	(356.7)	—
Cumulative Effect of Change in Accounting for Income Taxes	—	(570.7)	—
Net Income	\$ 1,587.9	\$ 374.3	\$ 1,080.2
Income (Charge) Per Share			
Before cumulative effect of accounting changes	\$ 1.96	\$ 1.61	\$ 1.35
Cumulative effect of change in accounting for postretirement benefits other than pensions	—	(0.44)	—
Cumulative effect of change in accounting for income taxes	—	(0.71)	—
Net Income Per Share	\$ 1.96	\$ 0.46	\$ 1.35
Average shares outstanding used to calculate income (charge) per share	810.1	806.7	802.5

See accompanying Notes to Consolidated Financial Statements.

Allocation of 1993
Net Sales



Management's Analysis—Results of Operations

(See "Management's Analysis—Overview" on page 24 for background information, "Business Segments" on page 27 for detail of segment results and Note 3 for details of unusual items.)

To improve comparability, Management's Analysis includes, where significant, analytical data to indicate the impact of beverage and snack food acquisitions and the unfavorable currency translation impact of a stronger U.S. dollar. In comparing results, acquisition impacts represent the results of the acquired businesses for periods in the current year corresponding to the prior year periods that did not include the results of the businesses. Restaurant units acquired, principally from franchisees, and constructed units are treated the same for purposes of this analysis and are collectively referred to as "additional restaurant units." Also, the analysis indicates the impact of unusual charges and the effect on comparisons of 1992 to 1991 of adopting SFAS 106 and SFAS 109, collectively referred to as "the unusual items."

Net Sales rose \$3.1 billion or 14% in 1993. Acquisitions contributed \$1.1 billion or 5 points to sales growth. The balance of the increase reflected \$913 million from additional restaurant units, volume gains that contributed about \$850 million and higher pricing. Both the volume gains and higher pricing were led by worldwide snack foods. Sales grew \$2.7 billion or 14% in 1992. Acquisitions contributed \$965 million or 5 points to this advance. The balance of the increase reflected \$937 million from additional restaurant units, about \$375 million from volume gains, driven by domestic snack foods, and higher pricing led by worldwide beverages. International sales grew 24% in 1993. Acquisitions contributed 16 points to the increase, but the unfavorable currency translation impact depressed sales growth by 4 points. International sales rose 31% in 1992. Acquisitions contributed 19 points to this advance. International sales represented 27%, 25% and 21% of total sales in 1993, 1992 and 1991, respectively. The long-term trend of an increasing international component of sales is expected to continue.

Cost of sales as a percentage of Net Sales was 47.7%, 48.3% and 48.6% in 1993, 1992 and 1991, respectively. The 1993 gross margin improvement was driven by lower product costs (packaging and ingredients) in domestic beverages. The 1992 gross margin improvement was driven by beverages, reflecting higher worldwide net pricing and lower product costs.

Selling, general and administrative expenses rose 13% in 1993 and 15% in 1992. The increase in both years reflected base business growth and acquisitions. Excluding the unusual items, selling, general and administrative expenses rose 16% in 1993 and 14% in 1992, and as a percentage of Net Sales were 39.4%, 38.8% and 38.5% in 1993, 1992 and 1991, respectively. In 1993, selling and distribution expenses grew at a faster rate than sales, but marketing expenditures grew at a slower rate. These changes reflect the impact of worldwide bottling acquisitions and flat marketing expenditures in domestic beverages.

Amortization of intangible assets rose 14% in 1993 and 28% in 1992 due primarily to acquisition activity. The 1992 increase also reflected the impact of adopting SFAS 109. This significant, noncash expense reduced net income per share by \$0.28, \$0.24 and \$0.22 in 1993, 1992 and 1991, respectively. The 1992 per share increase was mitigated by incremental tax benefits recognized on nondeductible amortization of identifiable intangibles, in accordance with SFAS 109.

Operating Profit increased 23% in 1993 and 12% in 1992. The following discussion excludes the impact of the unusual items. Operating profit increased \$342 million or 13% in 1993 and \$356 million or 16% in 1992, driven by combined segment operating profit growth of 14% in 1993 and 16% in 1992. Growth in 1993 reflected about \$425 million from higher volumes and \$89 million from additional restaurant units, partially offset by increased operating expenses that exceeded higher pricing. The 1992 increase reflected about \$200 million from volume growth and \$108 million from additional restaurant units, as well as higher prices that exceeded increased operating expenses. International segment profits grew 8% in 1993. The unfavorable translation impact depressed this growth by 6 points. The higher profits reflected double-digit increases in snack foods and beverages, partially offset by a decline in restaurants, particularly in Australia. International segment profits grew 32% in 1992. Acquisitions contributed 14 points to this advance. The balance of the increase reflected double-digit growth in all three segments. International profits represented 18%, 19% and 16% of combined segment operating profits in 1993, 1992 and 1991, respectively. The international component of profits is expected to increase in future years. Increased foreign exchange losses and lower equity in net income of affiliates, which are not included in segment profits, slowed 1993 total operating profit growth.

Interest expense, net of Interest income, increased 2% in 1993 and 4% in 1992. The change in 1993 reflected higher average borrowings, and lower average short-term investment balances held outside the U.S., which are managed as part of PepsiCo's overall financing strategy. In 1992, average borrowings were higher and the average short-term investment balances rose slightly. In both years, this financing activity was partially offset by a decline in interest rates, which is not expected to continue. Excluding the net impact of acquisitions, net interest expense declined 9% in 1993.

Provision for Income Taxes as a percentage of pretax income was 34.5%, 31.4% and 34.9% in 1993, 1992 and 1991, respectively. Excluding the impact of the 1993 U.S. tax legislation on deferred taxes, the effective tax rate in 1993 was 33.3%. The increase of 1.9 points over 1992 reflects higher U.S. and foreign effective rates, an increase in the proportion of income taxed at the higher U.S. tax rate and higher state taxes, partially offset by a favorable adjustment of certain prior year accruals. Excluding the impact of the adoption of SFAS 109 in 1992 and an unusual tax effect on a 1991 restructuring charge, the effective rates were 32.9% in 1992 and 34.2% in 1991. The decrease of 1.3 points in 1992 reflected lower effective rates on higher foreign income and resolutions of tax audits. The effective rate is expected to increase to about 35.5% in 1994, due primarily to lapping the 1993 accrual adjustments.

Income and Income Per Share Before Cumulative Effect of Accounting Changes ("income" and "income per share") in 1993 increased 22% to \$1.6 billion and \$1.96, respectively, and in 1992 increased 21% to \$1.3 billion and 19% to \$1.61, respectively. Excluding the unusual items, income and income per share rose 13% and 12% in 1993 and 21% and 20% in 1992, respectively. Growth in 1993 income per share was depressed by estimated dilution from acquisitions of \$0.05 or 3 points, all related to international beverage and snack food acquisitions.

Consolidated Balance Sheet

(in millions except per share amount)

PepsiCo, Inc. and Subsidiaries

December 25, 1993 and December 26, 1992

	1993	1992
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 226.9	\$ 169.9
Short-term investments, at cost which approximates market	<u>1,629.3</u>	<u>1,888.5</u>
	1,856.2	2,058.4
Accounts and notes receivable, less allowance: \$128.3 in 1993 and \$112.0 in 1992	1,883.4	1,588.5
Inventories	924.7	768.8
Prepaid expenses, taxes and other current assets	<u>499.8</u>	<u>426.6</u>
Total Current Assets	5,164.1	4,842.3
Investments in Affiliates and Other Assets	1,756.6	1,707.9
Property, Plant and Equipment, net	8,855.6	7,442.0
Intangible Assets, net	<u>7,929.5</u>	<u>6,959.0</u>
Total Assets	<u>\$23,705.8</u>	<u>\$20,951.2</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	\$ 2,191.2	\$ 706.8
Accounts payable	1,390.0	1,164.8
Income taxes payable	823.7	621.1
Accrued compensation and benefits	726.0	638.9
Accrued marketing	400.9	327.0
Other current liabilities	<u>1,043.1</u>	<u>1,099.0</u>
Total Current Liabilities	6,574.9	4,557.6
Long-term Debt	7,442.6	7,964.8
Other Liabilities	1,342.0	1,390.8
Deferred Income Taxes	2,007.6	1,682.3
Shareholders' Equity		
Capital stock, par value 1⅓¢ per share: authorized 1,800.0 shares, issued 863.1 shares	14.4	14.4
Capital in excess of par value	879.5	667.6
Retained earnings	6,541.9	5,439.7
Currency translation adjustment and other	<u>(183.9)</u>	<u>(99.0)</u>
	7,251.9	6,022.7
Less: Treasury stock, at cost: 64.3 shares in 1993 and 1992	<u>(913.2)</u>	<u>(667.0)</u>
Total Shareholders' Equity	6,338.7	5,355.7
Total Liabilities and Shareholders' Equity	<u>\$23,705.8</u>	<u>\$20,951.2</u>

See accompanying Notes to Consolidated Financial Statements.

Management's Analysis—Financial Condition

(See "Management's Analysis—Overview" on page 24 for background information.)

Assets increased \$2.8 billion or 13% over 1992, reflecting purchases of property, plant and equipment (capital spending), acquisitions and base business growth.

Short-term investments largely represent high-grade marketable securities portfolios held outside the U.S. The portfolio in Puerto Rico, which totaled \$1.3 billion at year-end 1993 and \$1.5 billion at year-end 1992, arises from the operating cash flows of the centralized concentrate manufacturing facilities that operate there under a tax incentive grant. The grant provides that the portfolio funds may be remitted to the U.S. without any additional tax. PepsiCo remitted \$564 million of the portfolio to the U.S. in 1993 and \$360 million in 1992. PepsiCo continually reassesses its alternatives to redeploy this and other portfolios held outside the U.S., considering other investment opportunities and risks, tax consequences and overall financing strategies.

Accounts and notes receivable increased \$295 million or 19% and inventories increased \$156 million or 20%, led by acquisitions and base business growth in worldwide beverages.

Intangible assets increased \$971 million or 14% over 1992, reflecting the allocation of purchase prices of acquisitions, partially offset by amortization.

Liabilities rose \$1.8 billion or 11% over 1992, primarily reflecting an increase in total debt, accounts payable and income taxes payable. Accounts payable increased \$225 million or 19% due to growth in the business and timing of a large year-end employee benefits prepayment. Income taxes payable increased \$203 million or 33%, reflecting an anticipated prepayment of taxes in early 1994 related to a federal tax audit for the years 1985 through 1989.

The \$962 million or 11% increase in total short-term and long-term debt partially funded investing and other financing activities. PepsiCo's unused credit facilities with lending institutions, which exist largely to support the issuances of short-term borrowings, were \$3.5 billion at year-end 1993 and 1992. This amount of short-term borrowings was classified as long-term at year-end 1993 and 1992, reflecting PepsiCo's intent and ability, through the existence of the credit facilities, to refinance these borrowings. Deferred income taxes increased \$325 million or 19%, led by deferred tax liabilities arising in the allocation of purchase prices of acquisitions.

Financial Leverage is measured by PepsiCo on both a market value and historical cost basis. PepsiCo believes that the most meaningful measure of debt is on a net basis, which takes into account its large short-term investment portfolios held outside the U.S. These portfolios are managed as part of PepsiCo's overall financing strategy and are not required to support day-to-day operations. Net debt reflects the pro forma remittance of the portfolios (net of related taxes) as a reduction of total debt. As of year-end 1993, total debt for the purpose of measuring leverage also includes the estimated present value of long-term operating lease commitments, and prior year leverage ratios have been restated for this change. Long-term operating lease commitments have characteristics similar to debt.

PepsiCo believes that market leverage (defined as net debt as a percentage of net debt plus the market value of equity, based on the year-end stock price) better measures PepsiCo's financial

leverage from the perspective of the investors in its securities, as it reflects the portion of the current value of PepsiCo that is financed with debt. Unlike historical cost measures, the market value of equity is based primarily on the expected future cash flows that will both support debt and provide returns to shareholders. The market net debt ratio was 22% at year-end 1993 and 19% at year-end 1992. The increase was driven by an 18% increase in net debt. Inclusion of long-term operating lease commitments contributed 2 percentage points to both the 1993 and 1992 ratios. PepsiCo has established a target range for its market net debt ratio of 20-25% to optimize its cost of capital. PepsiCo believes that it can safely exceed this range on a short-term basis to take advantage of strategic acquisition opportunities.

As measured on a historical cost basis, the ratio of net debt to net capital employed (defined as net debt, other liabilities, deferred income taxes and shareholders' equity) was 50% at year-end 1993 and 49% at year-end 1992. The increase was due to the growth in net debt, partially offset by a 16% increase in net capital employed. Inclusion of long-term operating lease commitments contributed 4 percentage points to both the 1993 and 1992 ratios.

At year-end 1993, about half of PepsiCo's net debt portfolio was exposed to variable interest rates, up from about 40% in 1992. All net debt with maturities of less than one year is categorized as variable.

PepsiCo's negative operating working capital position, which principally reflects the cash sales nature of its restaurant operations, effectively provides additional capital for investment. Operating working capital, which excludes short-term investments and short-term borrowings, was a negative \$849 million and \$897 million at year-end 1993 and 1992, respectively. The \$48 million decline reflected the impact of base business growth and acquisitions in the more working capital intensive bottling and snack food operations, as well as the changes in accounts payable and income taxes payable discussed above.

Shareholders' Equity increased \$983 million or 18% from 1992. This change reflected a 20% increase in retained earnings due to \$1.6 billion in net income less dividends declared of \$486 million, and a \$212 million or 32% increase in capital in excess of par value due to acquisitions for stock and exercises of stock options. This growth was offset by a \$246 million or 37% increase in treasury stock that reflected share repurchases net of shares used for acquisitions and stock option exercises, and an \$85 million or 86% decline in currency translation adjustment and other. This change reflected the impact of a stronger U.S. dollar on the translation of the net assets of operations in Canada and Spain, partially offset by the impact of a weaker U.S. dollar on the translation of net assets in Japan and the change in the functional currency of operations in Mexico from the U.S. dollar to local currency.

Based on income before cumulative effect of accounting changes, PepsiCo's return on average shareholders' equity (ROAE) was 27.2% in 1993 and 23.9% in 1992. The ROAE was 25.3% in 1993 and 24.0% in 1992, excluding from both income and shareholders' equity the impact of the 1993 and 1992 unusual items as well as the cumulative effect of the 1992 accounting changes.

Consolidated Statement of Cash Flows

(in millions)

PepsiCo, Inc. and Subsidiaries

Fifty-two weeks ended December 25, 1993, December 26, 1992 and December 28, 1991

	1993	1992	1991
Cash Flows — Operating Activities:			
Income before cumulative effect of accounting changes	\$ 1,587.9	\$ 1,301.7	\$ 1,080.2
Adjustments to reconcile income before cumulative effect of accounting changes to net cash provided by operating activities:			
Depreciation and amortization	1,444.2	1,214.9	1,034.5
Deferred income taxes	83.3	(52.0)	98.0
Other noncash charges and credits, net	344.8	315.6	227.2
Changes in operating working capital, excluding effect of acquisitions:			
Accounts and notes receivable	(161.0)	(45.7)	(55.9)
Inventories	(89.5)	(11.8)	(54.8)
Prepaid expenses, taxes and other current assets	3.3	(27.4)	(75.6)
Accounts payable	143.2	(102.0)	57.8
Income taxes payable	(125.1)	(16.9)	(3.4)
Other current liabilities	(96.7)	135.2	122.3
Net change in operating working capital	(325.8)	(68.6)	(9.6)
Net Cash Provided by Operating Activities	3,134.4	2,711.6	2,430.3
Cash Flows — Investing Activities:			
Acquisitions and investments in affiliates	(1,011.2)	(1,209.7)	(640.9)
Purchases of property, plant and equipment (Capital spending)	(1,981.6)	(1,549.6)	(1,457.8)
Proceeds from sales of property, plant and equipment	72.5	89.0	69.6
Short-term investments, by original maturity:			
More than three months—purchases	(578.7)	(1,174.8)	(1,849.2)
More than three months—maturities	846.0	1,371.8	1,873.2
Three months or less, net	(8.3)	(249.4)	(164.9)
Other, net	(109.4)	(30.8)	(105.8)
Net Cash Used for Investing Activities	(2,770.7)	(2,753.5)	(2,275.8)
Cash Flows — Financing Activities:			
Proceeds from issuances of long-term debt	710.8	1,092.7	2,799.6
Payments of long-term debt	(1,201.9)	(616.3)	(1,348.5)
Short-term borrowings, by original maturity:			
More than three months—proceeds	3,033.6	911.2	2,551.9
More than three months—payments	(2,791.6)	(2,062.6)	(3,097.4)
Three months or less, net	839.0	1,075.3	(467.1)
Cash dividends paid	(461.6)	(395.5)	(343.2)
Purchases of treasury stock	(463.5)	(32.0)	(195.2)
Proceeds from exercises of stock options	68.6	82.8	15.8
Other, net	(36.7)	(30.9)	(47.0)
Net Cash Provided by (Used for) Financing Activities	(303.3)	24.7	(131.1)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(3.4)	0.4	(7.5)
Net Increase (Decrease) in Cash and Cash Equivalents	57.0	(16.8)	15.9
Cash and Cash Equivalents — Beginning of Year	169.9	186.7	170.8
Cash and Cash Equivalents — End of Year	\$ 226.9	\$ 169.9	\$ 186.7
Supplemental Cash Flow Information:			
Cash Flow Data			
Interest paid	\$ 549.5	574.7	490.1
Income taxes paid	\$ 675.6	519.7	385.9
Schedule of Noncash Investing and Financing Activities			
Liabilities assumed in connection with acquisitions	\$ 897.0	383.8	70.9
Issuance of treasury stock and debt for acquisitions	\$ 364.5	189.5	162.7
Book value of net assets exchanged for investment in affiliates	\$ 60.8	86.7	—

See accompanying Notes to Consolidated Financial Statements.

Management's Analysis—Cash Flows

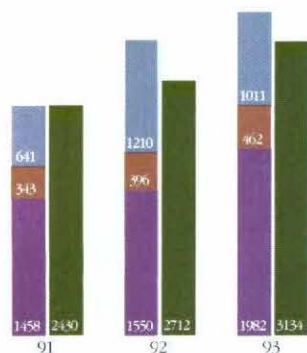
(See "Management's Analysis—Overview" on page 24 for background information.)

Cash flow activity in 1993 reflected strong cash flows from operations of \$3.1 billion, net proceeds of \$590 million from debt activities and \$259 million in net proceeds from short-term investment activities. Major funding needs included capital spending of \$2.0 billion, acquisition and affiliate investment activity of \$1.0 billion, purchases of treasury stock totaling \$464 million and dividend payments of \$462 million.

One of PepsiCo's most significant financial strengths is its internal cash generation capability. In 1993, cash flows generated, after capital spending and acquisitions, in snack foods and beverages were partially offset by a cash use in restaurants that reflected funding of additional units, both constructed and acquired. Net cash flows from PepsiCo's domestic businesses were partially offset by international uses of cash, reflecting strategies to accelerate growth of international operations.

Cash from operations largely funded capital spending, dividends and acquisitions over the past three years.
(\$ in Millions)

■ Net Cash Provided by Operating Activities
■ Capital Spending
■ Dividends Paid
■ Cash Acquisitions



Net Cash Provided by Operating Activities in 1993 rose \$423 million or 16% over 1992, and in 1992 grew \$281 million or 12% over 1991. Income before noncash charges and credits rose 24% in 1993 and 14% in 1992. The increases in depreciation and amortization noncash charges of \$229 million in 1993 and \$180 million in 1992 reflected capital spending and acquisitions. The 1993 increase of \$135 million in the deferred income tax provision was primarily due to the lapping of 1992 effects related to restructuring accruals and prefunded employee benefit expenses and the impact of new U.S. tax legislation. The 1992 decline of \$150 million in the deferred income tax provision was primarily due to the impact of SFAS 106 and SFAS 109, higher restructuring accruals and lower prefunding of employee benefit expenses. The 1992 increase in other net noncash charges and credits reflected higher accruals of noncurrent liabilities. Funding in 1993 of operating working capital increased \$257 million over 1992, reflecting slower collections of domestic accounts receivable, advance domestic purchases of product ingredients, higher payments of income taxes and the lapping of 1992 and 1991 effects related to restructuring accruals, partially offset by the impact on accounts payable of the timing of a large year-end payment to prefund employee benefits. The 1992 over 1991 net increase of \$59 million in funding of operating working capital was driven by the timing of year-end payments of accounts payable, partially offset by lower prefunding of employee benefits, which is recorded as prepaid expense.

Investing Activities over the past three years reflected strategic spending in all three industry segments through capital spending, acquisitions and investments in affiliates. Acquisitive activity in all three years primarily reflected acquisitions of franchised bottling and restaurant operations and international snack food businesses. Noncash acquisition activity, consisting of treasury stock and debt issuances, totaled \$365 million, \$190 million and \$163 million in 1993, 1992 and 1991, respectively. About 45% of the total acquisitive activity in 1993 represented international transactions, compared to 60% in 1992 and 25% in 1991. PepsiCo continues to seek opportunities to strengthen its position in its domestic and international industry segments through such strategic acquisitions. Capital spending increases have been driven by restaurants, which represented about half of the spending in all three years, led by new units. Capital spending is expected to increase to approximately \$2.2 billion in 1994. About half of the 1994 amount is targeted for restaurants, led by new units, and the balance is evenly divided between beverages and snack foods, reflecting productive capacity expansion and equipment replacements. Approximately one-third of the planned 1994 capital spending relates to international businesses, about the same as the prior three years. Cash provided by operations is expected to be sufficient to fund expected capital spending. Short-term investment activity in PepsiCo's portfolios outside the U.S. provided \$259 million in 1993, compared to net investments of \$52 million in 1992 and \$141 million in 1991.

Financing Activities. The 1993 over 1992 change in cash flows from net financing activities was a \$328 million use, compared to a 1992 over 1991 source of \$156 million, principally due to changes in treasury stock purchases. Financing activities reflected net issuances of short and long-term debt of \$590 million in 1993, \$400 million in 1992 and \$439 million (which included the retirement of a \$300 million nonrecourse obligation) in 1991.

During 1993, PepsiCo issued \$1.1 billion of notes. Subsequent to year-end, PepsiCo issued \$814 million of notes through February 1994. The proceeds were used to refinance short-term borrowings. These issuances utilized the remaining availability under a \$3.3 billion shelf registration statement effective in December 1991 and \$250 million of a \$2.5 billion shelf registration statement effective in February 1994 for the principal purpose of financing growth activities and refinancing other borrowings.

Cash dividends declared were \$486 million in 1993 and \$405 million in 1992. PepsiCo targets a dividend payout of about one-third of the prior year's income, thus retaining sufficient earnings to provide financial resources for growth opportunities.

Share repurchase decisions are evaluated considering management's target capital structure and other investment opportunities. In 1993, PepsiCo repurchased 12.4 million shares at a cost of \$464 million. Subsequent to year-end, PepsiCo repurchased 4.8 million shares through February 1994 at a cost of \$186 million. Of the total 17.2 million shares, 12.0 million were purchased under the 45 million share repurchase authority granted by PepsiCo's Board of Directors (the Board) in 1987. The remaining 5.2 million shares were purchased under the new 50 million share repurchase authority, granted by the Board on July 22, 1993. This new authority replaced the 11.2 million shares remaining under the 1987 authority.

Consolidated Statement of Shareholders' Equity

(shares in thousands, dollars in millions except per share amounts)

PepsiCo, Inc. and Subsidiaries

Fifty-two weeks ended December 25, 1993, December 26, 1992 and December 28, 1991

	Capital Stock				Capital in Excess of Par Value	Retained Earnings	Currency Translation Adjustment and Other	Total
	Issued		Treasury					
	Shares	Amount	Shares	Amount				
Shareholders' Equity, December 29, 1990.	863,083	\$ 14.4	(74,694)	\$ (611.4)	\$ 365.0	\$ 4,753.0	\$ 383.2	\$ 4,904.2
1991 Net income	—	—	—	—	—	1,080.2	—	1,080.2
Cash dividends declared (per share-\$0.46)	—	—	—	—	—	(363.2)	—	(363.2)
Currency translation adjustment	—	—	—	—	—	—	(52.9)	(52.9)
Purchases of treasury stock	—	—	(6,392)	(195.2)	—	—	—	(195.2)
Shares issued in connection with acquisitions	—	—	5,613	46.7	95.0	—	—	141.7
Stock option exercises, including tax benefits, and compensation awards	—	—	1,446	13.6	16.4	—	—	30.0
Other, principally conversion of debentures	—	—	45	0.4	0.2	—	—	0.6
Shareholders' Equity, December 28, 1991	863,083	\$ 14.4	(73,982)	\$ (745.9)	\$ 476.6	\$ 5,470.0	\$ 330.3	\$ 5,545.4
1992 Net income	—	—	—	—	—	374.3	—	374.3
Cash dividends declared (per share-\$0.51)	—	—	—	—	—	(404.6)	—	(404.6)
Currency translation adjustment	—	—	—	—	—	—	(429.3)	(429.3)
Shares issued in connection with acquisitions	—	—	4,265	44.2	115.3	—	—	159.5
Stock option exercises, including tax benefits, and compensation awards	—	—	6,333	65.5	75.5	—	—	141.0
Purchases of treasury stock	—	—	(1,000)	(32.0)	—	—	—	(32.0)
Other, principally conversion of debentures	—	—	107	1.2	0.2	—	—	1.4
Shareholders' Equity, December 26, 1992	863,083	\$ 14.4	(64,277)	\$ (667.0)	\$ 667.6	\$ 5,439.7	\$ (99.0)	\$ 5,355.7
1993 Net income	—	—	—	—	—	1,587.9	—	1,587.9
Cash dividends declared (per share-\$0.61)	—	—	—	—	—	(485.7)	—	(485.7)
Currency translation adjustment	—	—	—	—	—	—	(77.0)	(77.0)
Purchases of treasury stock	—	—	(12,371)	(463.5)	—	—	—	(463.5)
Shares issued in connection with acquisitions	—	—	8,896	170.2	164.6	—	—	334.8
Stock option exercises, including tax benefits, and compensation awards	—	—	3,415	46.6	47.1	—	—	93.7
Pension liability adjustment, net of deferred taxes	—	—	—	—	—	—	(7.9)	(7.9)
Other, principally conversion of debentures	—	—	35	0.5	0.2	—	—	0.7
Shareholders' Equity, December 25, 1993.	863,083	\$ 14.4	(64,302)	\$ (913.2)	\$ 879.5	\$ 6,541.9	\$ (183.9)	\$ 6,338.7

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(tabular dollars in millions except per share amounts)

Note 1 – Summary of Significant Accounting Policies

Significant accounting policies are discussed below, and where applicable, in the Notes that follow.

Principles of Consolidation. The financial statements reflect the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany accounts and transactions have been eliminated. Investments in affiliates in which PepsiCo exercises significant influence but not control are accounted for by the equity method, and the equity in net income is included in Selling, general and administrative expenses in the Consolidated Statement of Income. Certain other reclassifications were made to prior year amounts to conform with the 1993 presentation.

Marketing Costs. Marketing costs are reported in Selling, general and administrative expenses and include costs of advertising, marketing and promotional programs. Promotional discounts are expensed as incurred, and other marketing costs not deferred are charged to expense ratably in relation to sales over the year in which incurred. Marketing costs deferred consist of media and personal service advertising prepayments, materials in inventory and production costs of future media advertising; these assets are expensed in the year used.

Cash Equivalents. Cash equivalents represent funds temporarily invested (with original maturities not exceeding three months) as part of PepsiCo's management of day-to-day operating cash receipts and disbursements. All other investment portfolios, primarily held outside the U.S., are classified as short-term investments.

Net Income Per Share. Net income per share is computed by dividing net income by the weighted average number of shares and share equivalents outstanding during each year.

Research and Development Expenses. Research and development expenses, which are expensed as incurred, were \$113 million, \$102 million and \$99 million in 1993, 1992 and 1991, respectively.

Note 2 – Business Segments

Information regarding industry segments and geographic areas of operations is provided on pages 27 through 29.

Note 3 – Unusual Items

In 1993, PepsiCo recorded a charge of \$29.9 million (\$0.04 per share) to increase its net deferred tax liabilities, as required by Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes," for the 1% statutory rate increase under U.S. tax legislation enacted in 1993. (See Note 13.)

Unusual charges, principally for restructurings, totaled \$193.5 million in 1992 (\$128.5 million after-tax or \$0.16 per share) and \$170.0 million in 1991 (\$119.8 million after-tax or \$0.15 per share). In 1992, PepsiCo adopted the Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions" and SFAS 109 effective December 29, 1991. (See Notes 10 and 13.) As compared to the previous accounting methods, the adoption of SFAS 106 and SFAS 109 reduced 1992 operating profit by \$72.8 million (\$19.3 million after-tax or \$0.02 per share). Information regarding the effect of these actions on comparability of operating profits is provided on page 27.

Note 4 – Acquisitions and Investments in Affiliates

During 1993, PepsiCo completed a number of acquisitions and affiliate investments in all three industry segments aggregating \$1.4 billion, principally comprised of \$1.0 billion in cash and \$335 million in PepsiCo Capital Stock. Approximately \$307 million of debt, including capital lease obligations, was assumed in these transactions, more than half of which was subsequently retired. This activity included acquisitions of domestic and international franchised restaurant operations, the buyout of PepsiCo's joint venture partners in a franchised bottling operation in Spain and the related acquisition of their fruit-flavored beverage operation, the acquisition of the remaining 85% interest in a large franchised bottling operation in the Northwestern U.S., the acquisition of a regional Mexican-style casual dining restaurant chain in the U.S. and equity investments in certain franchised bottling operations in Argentina and Mexico.

During 1992, acquisitions and affiliate investment activity aggregated \$1.4 billion, principally for cash. This activity included acquisitions of international (primarily Canada) and domestic franchised bottling operations and a number of domestic and international franchised restaurant operations, the buyout of PepsiCo's joint venture partner in a Canadian snack food business and an equity investment in a domestic casual dining restaurant chain featuring gourmet pizza. In addition, PepsiCo exchanged certain previously consolidated snack food operations in Europe with a net book value of \$87 million for a 60% equity interest in an international snack food joint venture with General Mills, Inc. PepsiCo secured a controlling interest in its Mexican cookie affiliate, Gamesa, through an exchange of certain non-cookie operations of Gamesa for its joint venture partner's interest.

During 1991, acquisition and affiliate investment activity aggregated \$804 million, principally for cash, led by acquisitions of domestic franchised restaurant operations.

The acquisitions have been accounted for by the purchase method; accordingly, their results are included in the Consolidated Financial Statements from their respective dates of acquisition. The aggregate impact of acquisitions was not material to PepsiCo's net sales, net income or net income per share; accordingly, no related pro forma information is provided.

Note 5 – Inventories

Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out methods) or net realizable value. The cost of 41% of 1993 inventories and 44% of 1992 inventories was computed using the last-in, first-out (LIFO) method. Use of the LIFO method increased the 1993 total year-end inventory amount below by \$8.9 million, but reduced the 1992 amount by \$3.4 million.

	1993	1992
Raw materials, supplies and in-process	\$463.9	\$388.1
Finished goods	460.8	380.7
	<u>\$924.7</u>	<u>\$768.8</u>

PepsiCo hedges certain raw material purchases through commodity futures contracts to reduce its exposure to market price fluctuations. Gains and losses on these contracts are included in the cost of the raw materials.

Note 6 – Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the assets. Depreciation expense in 1993, 1992 and 1991 was \$1.1 billion, \$923 million and \$800 million, respectively.

	1993	1992
Land	\$ 1,186.4	\$ 1,010.0
Buildings and improvements	5,017.6	4,269.5
Capital leases, primarily buildings ...	402.6	330.5
Machinery and equipment	7,643.4	6,485.2
	<u>14,250.0</u>	<u>12,095.2</u>
Accumulated depreciation	<u>(5,394.4)</u>	<u>(4,653.2)</u>
	<u>\$ 8,855.6</u>	<u>\$ 7,442.0</u>

Note 7 – Intangible Assets

Identifiable intangible assets arose from the allocation of purchase prices of businesses acquired, and consist principally of reacquired franchise rights and trademarks. Reacquired franchise rights relate to acquisitions of franchised bottling and restaurant operations, and the trademarks principally relate to acquisitions of international snack food operations and KFC. Values assigned to such identifiable intangibles were based on independent appraisals or internal estimates. Goodwill represents any residual purchase price after allocation to all identifiable net assets.

	1993	1992
Reacquired franchise rights	\$3,959.7	\$3,476.9
Trademarks	898.5	734.2
Other identifiable intangibles	154.7	159.6
Goodwill	2,916.6	2,588.3
	<u>\$7,929.5</u>	<u>\$6,959.0</u>

Intangible assets are amortized on a straight-line basis over appropriate periods generally ranging from 20 to 40 years. Accumulated amortization was \$1.3 billion and \$1.0 billion at year-end 1993 and 1992, respectively.

The recoverability of carrying values of intangible assets is evaluated on a recurring basis. The primary indicators of recoverability are current or forecasted profitability of the related acquired business, measured as profit before interest, but after amortization of the intangible assets. Consideration is also given to the estimated disposal values of certain identifiable intangible assets compared to their carrying values. For the three-year period ended December 25, 1993, there were no adjustments to the carrying values of intangible assets resulting from these evaluations.

Note 8 – Short-term Borrowings and Long-term Debt

	1993	1992
Short-term Borrowings		
Commercial paper (3.3% and 3.5% weighted average interest rate at year-end 1993 and 1992, respectively)	\$ 3,535.0	\$ 2,113.6
Current maturities of long-term debt issuances	1,183.1	1,052.6
Notes (A)	394.0	600.0
Other borrowings	529.1	440.6
Amount reclassified to long-term debt (B)	(3,450.0)	(3,500.0)
	<u>\$ 2,191.2</u>	<u>\$ 706.8</u>
Long-term Debt		
Short-term borrowings, reclassified (B)	\$ 3,450.0	\$ 3,500.0
Notes due 1994-2008 (6.5% and 6.6% weighted average interest rate at year-end 1993 and 1992, respectively) (A)	3,873.8	4,209.1
Zero coupon notes, \$935 million due 1994-2012 (14.4% semi-annual weighted average yield to maturity at year-end 1993 and 1992)	327.2	300.4
Swiss franc perpetual Foreign Interest Payment bonds (C)	212.2	211.4
Pound sterling 9 1/8% notes (D)	—	91.0
Swiss franc 5 1/4% bearer bonds due 1995 (D)	90.1	89.1
Swiss franc 7 1/8% notes due 1994 (D)	69.8	69.1
Capital lease obligations (See Note 9) ..	291.4	242.0
Other, due 1994-2020 (6.6% and 6.8% weighted average interest rate at year-end 1993 and 1992, respectively)	311.2	305.3
	<u>8,625.7</u>	<u>9,017.4</u>
Less current maturities of long-term debt issuances	(1,183.1)	(1,052.6)
Total long-term debt	<u>\$ 7,442.6</u>	<u>\$ 7,964.8</u>

Long-term debt is carried net of any related discount or premium and unamortized debt issuance costs. The debt agreements include various restrictions, none of which is presently significant to PepsiCo.

The annual maturities of long-term debt through 1998, excluding capital lease obligations and the reclassified short-term borrowings, are: 1994-\$1.2 billion, 1995-\$692 million, 1996-\$1.1 billion, 1997-\$278 million and 1998-\$1.1 billion.

(A) PepsiCo has entered into interest rate swap agreements to effectively convert \$193 million and \$725 million of fixed rate debt issuances to variable rate debt with a weighted average interest rate of 3.3% and 3.4% at year-end 1993 and 1992, respectively, as well as effectively convert \$214 million of variable rate debt to fixed rate debt with an interest rate of 7.0% at year-end 1993 and 1992. The differential to be paid or

received on interest rate swaps is accrued as interest rates change and is charged or credited to interest expense over the life of the agreements.

(B) At year-end 1993 and 1992, \$3.5 billion of short-term borrowings were classified as long-term, reflecting PepsiCo's intent and ability to refinance these borrowings on a long-term basis, through either long-term debt issuances or rollover of existing short-term borrowings. At year-end 1993 and 1992, PepsiCo had revolving credit agreements covering potential borrowings aggregating \$3.5 billion, with the current agreements expiring in 1995 through 1999. These unused credit facilities provide the ability to refinance short-term borrowings.

(C) The coupon rate of the Swiss franc 400 million perpetual Foreign Interest Payment bonds issued in 1986 is 7 1/2% through 1996. The interest payments are made in U.S. dollars at a fixed contractual exchange rate. The bonds have no stated maturity date. At the end of each 10-year period after the issuance of the bonds, PepsiCo and the bondholders each have the right to cause redemption of the bonds. If not redeemed, the coupon rate will be adjusted based on the prevailing yield of 10-year U.S. Treasury Securities. The principal of the bonds is denominated in Swiss francs. PepsiCo can, and intends to, limit the ultimate redemption amount to the U.S. dollar proceeds at issuance, which is the basis of the carrying value.

(D) PepsiCo has entered into currency exchange agreements to hedge its foreign currency exposure on these issues of non-U.S. dollar denominated debt. At year-end 1993, the carrying value of this debt aggregated \$160 million and the net receivable under related currency exchange agreements aggregated \$41 million, resulting in a net effective U.S. dollar liability of \$119 million with a weighted average fixed interest rate of 6.5%. At year-end 1992, the aggregate carrying values of the debt and the net receivable under related currency exchange agreements were \$249 million and \$20 million, respectively, resulting in a net effective U.S. dollar liability of \$229 million with a weighted average fixed interest rate of 7.2%. The carrying values of the currency exchange agreements are reflected in the Consolidated Balance Sheet as gross receivables and payables under the appropriate current and noncurrent asset and liability captions. Changes in the carrying value of a currency exchange agreement resulting from exchange rate movements are offset by changes in the carrying value of the related non-U.S. dollar denominated debt, as both values are based on current exchange rates.

The maturity dates of interest rate swaps and currency exchange agreements correspond with those of the related debt instruments. The counterparties to PepsiCo's interest rate swaps and currency exchange agreements consist of a diversified group of financial institutions. PepsiCo is exposed to credit risk to the extent of nonperformance by these counterparties; however, PepsiCo regularly monitors its positions and the credit ratings of these counterparties and considers the risk of default to be minimal. Additionally, due to the frequency of interest payments and receipts, PepsiCo's credit risk related to interest rate swaps is not significant.

Note 9 – Leases

PepsiCo has noncancelable commitments under both capital and long-term operating leases, primarily for restaurant units. Certain of these units have been subleased to restaurant franchisees. Commitments on capital and operating leases expire at various dates through 2088 and, in many cases, provide for rent escalations and renewal options. Most leases require payment of related occupancy costs which include property taxes, maintenance and insurance.

Future minimum commitments and sublease receivables under noncancelable leases are as follows:

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1994	\$ 56.8	\$ 247.2	\$ 3.5	\$ 9.7
1995	52.4	219.7	3.3	9.1
1996	46.5	197.7	3.1	8.2
1997	39.9	171.6	2.8	7.3
1998	59.8	155.5	2.4	6.1
Later years	229.0	894.9	9.0	25.5
	<u>\$484.4</u>	<u>\$1,886.6</u>	<u>\$24.1</u>	<u>\$65.9</u>

At year-end 1993, the present value of minimum payments under capital leases was \$291 million, after deducting \$1 million for estimated executory costs (taxes, maintenance and insurance) and \$192 million representing imputed interest. The present value of minimum receivables under direct financing subleases was \$15 million after deducting \$9 million of unearned interest income.

Total rental expense and income and the contingent portions of these totals were as follows:

	1993	1992	1991
Total rental expense	\$419.8	379.0	323.2
Contingent portion of expense	\$ 27.5	27.5	22.3
Total rental income	\$ 16.6	14.7	13.0
Contingent portion of income	\$ 4.4	4.5	4.8

Contingent rentals are based on sales by restaurants in excess of levels stipulated in the lease agreements.



Note 10 – Postretirement Benefits Other Than Pensions

PepsiCo provides postretirement health care benefits to eligible retired employees and their dependents, principally in the U.S. Retirees who have 10 years of service and attain age 55 while in service with PepsiCo are eligible to participate in the postretirement benefit plans. The plans in effect through 1993 were largely noncontributory and not funded.

Effective December 29, 1991, PepsiCo adopted Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS 106 requires PepsiCo to accrue the cost of postretirement benefits over the years employees provide services to the date of their full eligibility for such benefits. Previously, such costs were expensed as actual claims were incurred. PepsiCo elected to immediately recognize the transition obligation for future benefits to be paid related to past employee services, resulting in a noncash charge of \$575.3 million pretax (\$356.7 million after-tax or \$0.44 per share) that represents the cumulative effect of the change in accounting for years prior to 1992. The expense recognized in 1992 exceeded the amount under the previous accounting method by \$52.1 million pretax (\$32.3 million after-tax or \$0.04 per share). PepsiCo's cash flows have been unaffected by this accounting change as PepsiCo continues to largely fund postretirement benefit costs as the claims are incurred.

Effective in 1993 and 1994, PepsiCo introduced retiree cost-sharing and implemented programs intended to stem rising costs. Also, PepsiCo has adopted a provision which limits its future obligation to absorb health care cost inflation. These amendments resulted in an unrecognized prior service gain of \$191 million, which is being amortized on a straight-line basis over the average remaining employee service period of 10 years as a reduction in postretirement benefit expense beginning in 1993.

The 1993 information presented below includes amounts for a small postretirement benefit plan in Puerto Rico. Although not yet measured, obligations related to other international postretirement benefit plans are not expected to be significant, since these benefits are generally provided through government-sponsored plans.

The postretirement benefit expense for 1993 and 1992 included the following components:

	1993	1992
Service cost of benefits earned	\$ 14.7	\$25.5
Interest cost on accumulated postretirement benefit obligation	40.6	50.8
Amortization of prior service (gain) cost	(19.6)	0.1
Amortization of net loss	0.5	—
Postretirement benefit expense	<u>\$ 36.2</u>	<u>\$76.4</u>

The decline in the 1993 expense was primarily due to the plan amendments, reflecting reductions in service and interest costs as well as the amortization of the unrecognized prior service gain. Expense recognized in 1991 under the previous accounting method was \$23.9 million.

The 1993 and 1992 postretirement benefit liability recorded in the Consolidated Balance Sheet included the following components:

	1993	1992
Actuarial present value of postretirement benefit obligations:		
Retirees	\$(313.8)	\$(251.2)
Fully eligible active plan participants	(107.3)	(132.5)
Other active plan participants	(206.9)	(312.1)
Accumulated postretirement benefit obligation	(628.0)	(695.8)
Unrecognized prior service (gain) cost	(171.5)	0.5
Unrecognized net loss	148.6	58.0
Postretirement benefit liability at year-end	<u>\$(650.9)</u>	<u>\$(637.3)</u>

The assumed discount rate used to determine the accumulated postretirement benefit obligation at year-end 1993 and related expense for 1994 is 6.8% compared to 8.2% used to determine the obligation at year-end 1992 and related expense for 1993. The decrease reflects the decline in interest rates. The discount rate represents the expected yield on a diversified portfolio of high-grade (AA rated or equivalent) fixed-income investments with cash flow streams approximating payments under the plans. The lower discount rate increased the accumulated postretirement benefit obligation by \$99.6 million and is expected to increase expense in 1994 by \$7.6 million.

As a result of plan amendments discussed above, separate assumed health care cost trend rates are used for current retirees and employees retiring after 1993. The assumed health care cost trend rate for current retirees was 12.5% for 1992, 11.5% for 1993 and is 10.5% for 1994, declining gradually to 5.5% in 2005 and thereafter. For employees retiring after 1993, the trend rate was 9.0% for 1993 and is 8.5% for 1994, declining gradually to 0% in 2005 and thereafter. A one-percentage-point increase in the assumed health care cost trend rate would have increased the 1993 postretirement benefit expense by \$6.4 million and would have increased the 1993 accumulated postretirement benefit obligation by \$82.7 million.

Note 11 – Pension Plans

PepsiCo sponsors noncontributory defined benefit pension plans covering substantially all full-time domestic employees as well as contributory and noncontributory defined benefit pension plans covering certain international employees. Benefits generally are based on years of service and compensation or stated amounts for each year of service. PepsiCo funds the domestic plans in amounts not less than minimum statutory funding requirements nor more than the maximum amount that can be deducted for federal income tax purposes. International plans are funded in amounts sufficient to comply with local statutory requirements. The plans' assets consist principally of equity securities, government and corporate debt securities and other fixed-income obligations. PepsiCo Capital Stock accounted for approximately 22% and 24% of the total market value of the domestic plans' assets for 1993 and 1992, respectively.

Full-time domestic employees not covered by these plans generally are covered by multiemployer defined benefit plans as part of collective-bargaining agreements. Pension expense for these multiemployer plans was not significant in the aggregate.

The international plans presented below are primarily comprised of those in the U.K. for all three years, those in Canada for 1992 and 1993, as well as those in Mexico and Japan for 1993. Information for 1992 and 1991 has not been restated, since complete information for plans in Mexico and Japan, and for those in Canada in 1991, was not available. Information for 1992 and 1991, which had previously been reported on a combined basis for all plans, has been disaggregated to enhance comparability with the 1993 presentation.

The net pension expense for company-sponsored plans included the following components:

	Domestic Plans			International Plans		
	1993	1992	1991	1993	1992	1991
Service cost of benefits earned	\$ 57.1	\$ 52.3	\$ 40.5	\$ 12.4	\$ 8.6	\$ 6.2
Interest cost on projected benefit obligation . . .	75.6	72.0	62.6	15.0	10.9	6.7
Return on plan assets:						
Actual	(161.5)	(61.3)	(205.2)	(40.8)	(36.0)	(18.9)
Deferred gain (loss)	70.9	(26.2)	122.9	20.4	18.6	5.8
	(90.6)	(87.5)	(82.3)	(20.4)	(17.4)	(13.1)
Amortization of net transition (gain) loss	(19.0)	(19.0)	(19.0)	0.3	—	—
Net other amortization	8.8	8.2	5.1	1.7	(6.5)	0.4
Pension expense (income)	\$ 31.9	\$ 26.0	\$ 6.9	\$ 9.0	\$ (4.4)	\$ 0.2

Inclusion of the plans in Mexico and Japan increased the 1993 pension expense by \$5.5 million. Inclusion of the plans in Canada increased the 1993 and 1992 pension expense by \$3.4 million and \$0.9 million, respectively.

Reconciliations of the funded status of the plans to the pension liability included in the Consolidated Balance Sheet are as follows:

	Domestic Plans				International Plans			
	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets		Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1993	1992	1993	1992	1993	1992	1993	1992
Actuarial present value of benefit obligations:								
Vested benefits	\$ (726.0)	\$ (721.0)	\$ (192.8)	\$ (15.9)	\$ (138.8)	\$ (98.5)	\$ (28.0)	\$ (18.0)
Nonvested benefits	(99.0)	(76.3)	(28.3)	(1.4)	(3.4)	(1.8)	(5.4)	(1.2)
Accumulated benefit obligation	(825.0)	(797.3)	(221.1)	(17.3)	(142.2)	(100.3)	(33.4)	(19.2)
Effect of projected compensation increases	(131.6)	(124.9)	(41.7)	(19.9)	(22.9)	(17.6)	(18.4)	(3.9)
Projected benefit obligation	(956.6)	(922.2)	(262.8)	(37.2)	(165.1)	(117.9)	(51.8)	(23.1)
Plan assets at fair value	1,018.7	1,096.2	185.2	2.4	221.7	186.1	17.3	14.5
Plan assets in excess of (less than) projected benefit obligation	62.1	174.0	(77.6)	(34.8)	56.6	68.2	(34.5)	(8.6)
Unrecognized prior service cost	11.7	44.0	49.9	4.9	3.2	3.0	0.5	0.3
Unrecognized net loss (gain)	16.0	(77.7)	26.1	14.2	11.9	3.7	7.7	6.0
Unrecognized net transition (gain) loss	(89.0)	(111.2)	(2.8)	0.4	(2.6)	(2.6)	8.1	(0.8)
Adjustment required to recognize minimum liability	—	—	(33.0)	—	—	—	(4.3)	—
Prepaid (accrued) pension liability	\$ 0.8	\$ 29.1	\$ (37.4)	\$ (15.3)	\$ 69.1	\$ 72.3	\$ (22.5)	\$ (3.1)

The assumptions used in computing the information above were as follows:

	Domestic Plans			International Plans		
	1993	1992	1991	1993	1992	1991
Discount rate — pension expense	8.2%	8.4	9.5	9.0%	9.5	10.4
Expected long-term rate of return on plan assets	10.0%	10.0	10.0	10.8%	10.8	11.9
Discount rate — projected benefit obligation	7.0%	8.2	8.4	7.4%	9.0	10.2
Future compensation growth rate	3.3%-7.0%	3.3-7.0	3.3-7.4	3.5%-8.5%	5.0-7.0	6.8-7.0

The discount rates and rates of return for the international plans represent weighted averages.

The lower discount rates used in determining the 1993 projected benefit obligation reflect the decline in interest rates. The discount rates represent the expected yields on a diversified portfolio of high-grade (AA rated or equivalent) fixed-income investments with cash flow streams approximating payments under the plans. The lower discount rates increased the projected benefit obligation for all plans and changed the funded status of certain plans from overfunded to underfunded. The lower discount rates are expected to result in an estimated \$43.2 million noncash increase in pension expense related to 1994.

In 1994, PepsiCo will change the method for calculating the market-related value of plan assets used in determining the return-on-asset component of annual pension expense and the cumulative net unrecognized gain or loss subject to amortization. Under the current accounting method, the calculation of the market-related value of assets reflects amortization of the actual capital return on assets on a straight-line basis over a five-year period. Under the new method, the calculation of the market-related value of assets reflects the long-term rate of return expected by PepsiCo and amortization of the difference between the actual return (including capital, dividends and interest) and the expected return over a five-year period.

PepsiCo believes the new method is widely used in practice and preferable because it results in calculated plan asset values that more closely approximate fair value, while still mitigating the effect of annual market-value fluctuations. Under both methods, only the cumulative net unrecognized gain or loss which exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets is subject to amortization. The noncash benefit in 1994 of adopting this change is expected to include a cumulative effect credit of approximately \$37.5 million (\$22.9 million after-tax) related to years prior to 1994, and an estimated \$35.0 million in lower pension expense related to 1994 as compared to the current accounting method.

Note 12 – Postemployment Benefits Other Than to Retirees

In November 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." SFAS 112, which must be adopted in the first quarter of 1994, requires employers to accrue the cost of postemployment benefits (including continuation of salary and health care coverage, severance and disability-related benefits) to terminated or inactive employees (and their dependents) other than retirees. SFAS 112 requires immediate recognition of any unrecorded obligation upon adoption. PepsiCo accrues some, but not all postemployment benefits.

PepsiCo has not yet determined the severance amounts that will be accrued based on the occurrence of an event or over expected service lives, and therefore has not yet estimated the cumulative effect charge upon adoption of SFAS 112 or the incremental expense in 1994 aside from the cumulative effect. The adoption of SFAS 112 will have no impact on cash flows as PepsiCo will continue to largely fund these benefit costs as incurred.

Note 13 – Income Taxes

Effective December 29, 1991, PepsiCo adopted Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." PepsiCo elected to adopt SFAS 109 on a prospective basis as a change in accounting principle, resulting in a noncash tax charge in 1992 of \$570.7 million (\$0.71 per share) for the cumulative effect of the change related to years prior to 1992. The cumulative effect primarily represents the recording of additional deferred tax liabilities related to identifiable intangible assets, principally acquired trademarks and reacquired franchise rights, that have no tax bases. These deferred tax liabilities would be paid only in the unlikely event the related intangible assets were sold in taxable transactions.

Detail of the provision for income taxes on income from continuing operations before cumulative effect of accounting changes:

		1993	1992	1991
Current –	Federal	\$466.8	\$413.0	\$315.5
	Foreign	195.5	170.4	114.3
	State	89.0	65.7	51.5
		<u>751.3</u>	<u>649.1</u>	<u>481.3</u>
Deferred –	Federal	78.2	(18.8)	63.5
	Foreign	(12.5)	(33.5)	25.3
	State	17.6	0.3	9.4
		<u>83.3</u>	<u>(52.0)</u>	<u>98.2</u>
		<u>\$834.6</u>	<u>\$597.1</u>	<u>\$579.5</u>

In 1993, a charge of \$29.9 million (\$0.04 per share) was recorded to increase net deferred tax liabilities as of the beginning of 1993 for the 1% statutory rate increase under the new U.S. tax legislation. The effect of the higher rate on the 1993 increase in net deferred tax liabilities through the enactment date of the legislation was immaterial. Of the charge, \$25.2 million is included in the deferred federal provision and \$4.7 million related to Safe Harbor Leases (discussed below) is included in Selling, general and administrative expenses.

As compared to the previous accounting method, the adoption of SFAS 109 reduced 1992 pretax income by \$20.7 million, but also reduced the deferred provision for income taxes by \$33.7 million, resulting in an increase of \$13.0 million (\$0.02 per share) in income before the cumulative effect.

The 1991 amounts above were calculated under the previous accounting method. The 1991 deferred provision arose principally from accelerated expense recognition for tax purposes as compared to financial reporting and included amounts related to depreciation of property, plant and equipment of \$56.2 million, amortization of intangibles of \$49.0 million and increased prefunding of employee benefits of \$23.3 million, partially offset by \$41.7 million related to restructuring charges.

Tax benefits associated with exercises of stock options totaled \$23.4 million in 1993, \$57.5 million in 1992 and \$8.5 million in 1991. These amounts were credited to shareholders' equity. A change in the functional currency of operations in Mexico from the U.S. dollar to local currency in 1993 resulted in a \$19.3 million decrease in the net deferred foreign tax liability that was credited to shareholders' equity.

U.S. and foreign income before income taxes and cumulative effect of accounting changes:

	1993	1992	1991
U.S.	\$1,633.0	\$1,196.8	\$1,054.3
Foreign	789.5	702.0	605.4
	<u>\$2,422.5</u>	<u>\$1,898.8</u>	<u>\$1,659.7</u>

PepsiCo operates centralized concentrate manufacturing facilities in Puerto Rico and Ireland under long-term tax incentives. The foreign amount in the above table includes approximately 50% (consistent with the allocation for tax purposes) of the income from U.S. sales of concentrate manufactured in Puerto Rico.

Reconciliation of the U.S. federal statutory tax rate to PepsiCo's effective tax rate on pretax income, based on the dollar impact of these major components on the provision for income taxes:

	1993	1992	1991
U.S. federal statutory tax rate	35.0%	34.0%	34.0%
State income tax, net of federal tax benefit	2.9	2.3	2.4
Effect of lower taxes on foreign income (including Puerto Rico and Ireland)	(3.3)	(5.0)	(2.7)
Reduction of prior year foreign accruals	(2.0)	—	—
Effect of 1993 tax legislation on deferred income taxes	1.1	—	—
Nondeductible amortization of domestic goodwill (all years) and other intangible assets (1991 only)	0.8	0.9	1.8
Other, net	—	(0.8)	(0.6)
Effective tax rate	<u>34.5%</u>	<u>31.4%</u>	<u>34.9%</u>

Detail of the 1993 and 1992 deferred tax liabilities (assets):

	1993	1992
Intangible assets other than nondeductible goodwill	\$ 1,551.0	\$1,292.2
Property, plant and equipment	552.3	526.8
Safe Harbor Leases	177.5	185.6
Zero coupon notes	103.5	96.6
Other	549.0	233.2
Gross deferred tax liabilities	<u>2,933.3</u>	<u>2,333.8</u>
Postretirement benefits	(268.0)	(238.4)
Net operating loss carryforwards	(241.5)	(138.6)
Restructuring accruals	(42.0)	(73.2)
Deferred state income taxes	(39.9)	(63.3)
Various accrued liabilities and other ..	(697.6)	(383.0)
Gross deferred tax assets	<u>(1,289.0)</u>	<u>(896.5)</u>
Deferred tax assets valuation allowance	249.0	181.3
Net deferred tax liability	<u>\$ 1,893.3</u>	<u>\$1,618.6</u>
Included in:		
“Prepaid expenses, taxes and other current assets”	\$ (138.2)	\$ (107.9)
“Other current liabilities”	23.9	44.2
“Deferred Income Taxes”	2,007.6	1,682.3
	<u>\$ 1,893.3</u>	<u>\$1,618.6</u>

The valuation allowance related to deferred tax assets rose by \$67.7 million in 1993 and \$38.5 million in 1992, which offset higher deferred tax assets arising primarily from increased net operating loss carryforwards. The net operating loss carryforwards largely relate to a number of foreign and state jurisdictions and expire over a range of dates.

The deferred tax liability for Safe Harbor Leases (the Leases) is related to transactions, which PepsiCo entered into in 1981 and 1982, that decreased income taxes paid by PepsiCo over the initial years of the Leases and are now increasing taxes payable. Additional taxes paid in 1993 related to the Leases totaled \$6.4 million, and taxes payable are estimated to be \$40.5 million over the next five years. The provision for income taxes is not impacted by the Leases.

Deferred tax liabilities have not been recognized for bases differences related to investments in foreign subsidiaries and joint ventures. These differences, which consist primarily of unremitted earnings intended to be indefinitely reinvested, aggregated approximately \$3.2 billion at year-end 1993 and \$2.4 billion at year-end 1992, exclusive of amounts that if remitted in the future would result in little or no tax under current tax laws and the Puerto Rico tax incentive grant. Determination of the amount of unrecognized deferred tax liabilities is not practicable.

Note 14 – Franchise Arrangements

Franchise arrangements with restaurant franchisees generally provide for initial fees and continuing royalty payments to PepsiCo based upon a percentage of sales. The arrangements are intended to assist franchisees through, among other things, product development and marketing programs initiated by PepsiCo for both its company-owned and franchised operations. On a limited basis, franchisees have also entered into leases of restaurant properties leased or owned by PepsiCo. (See Note 9.) Royalty revenues, initial fees and rental payments from franchisees, which are included in Net Sales, aggregated \$357 million, \$344 million and \$326 million in 1993, 1992 and 1991, respectively. Franchise royalty revenues, which represent the majority of these amounts, are recognized when earned. PepsiCo also has franchise arrangements with beverage bottlers, which do not provide for royalty payments.

Note 15 – Employee Incentive Plans

PepsiCo has established certain employee incentive plans under which stock options are granted. A stock option allows an employee to purchase a share of PepsiCo Capital Stock (Stock) in the future at the fair market value on the date of the grant.

Under the PepsiCo SharePower Stock Option Plan (SharePower), approved by the Board of Directors and effective in 1989, essentially all employees other than executive officers, part-time and short-service employees may be granted stock options annually. The number of options granted is based on each employee's annual earnings. The options generally become exercisable ratably over five years from the grant date and must be exercised within 10 years of the grant date. SharePower options were granted to approximately 118,000 employees in 1993 and 114,000 employees in 1992.

The shareholder-approved 1987 Long-Term Incentive Plan (the Plan), which has provisions similar to plans in place in prior years, provides incentives to eligible senior and middle management employees. In addition to grants of stock options, which are generally exercisable between 1 and 15 years from the grant date, the Plan allows for grants of performance share units (PSUs) to eligible senior management employees. A PSU is equivalent in value to a share of Stock at the grant date and vests for payment four years from the grant date, contingent upon attainment of prescribed performance goals. PSUs are not directly granted, as certain stock options granted may be surrendered by employees for a specified number of PSUs within 60 days of the option grant date. During 1993, 96,165 stock options were surrendered for 32,055 PSUs. At year-end 1993 and 1992, there were 491,200 and 484,698 outstanding PSUs, respectively.

The Plan also provides for incentive stock units (ISUs), which were granted to eligible middle management employees. Since 1989 these employees have been granted stock options rather than ISUs. ISUs vest for payment at specified dates over a six-year period, and each ISU is equivalent in value to a share of Stock at those respective dates. At year-end 1993 and 1992, there were 5,700 and 127,565 outstanding ISUs, respectively.

Grants under the Plan are approved by the Compensation Committee of the Board of Directors (the Committee), which is composed of outside directors. Payment of awards other than stock options is made in cash and/or Stock as approved by the Committee, and amounts expensed for such awards were

\$5 million, \$11 million and \$15 million in 1993, 1992 and 1991, respectively. Under the Plan, a maximum of 54 million shares of Stock can be purchased or paid pursuant to grants. There were 20 million and 22 million shares available for future grants at year-end 1993 and 1992, respectively.

1993 and 1992 activity for the stock option plans included:

<i>(options in thousands)</i>	SharePower	Long-Term Incentive
Outstanding at		
December 28, 1991	23,801	27,834
Granted	8,477	12,653
Exercised	(1,155)	(5,155)
Surrendered for PSUs	—	(503)
Canceled	(2,327)	(1,839)
Outstanding at		
December 26, 1992	28,796	32,990
Granted	9,121	2,834
Exercised	(1,958)	(1,412)
Surrendered for PSUs	—	(96)
Canceled	(2,524)	(966)
Outstanding at		
December 25, 1993	33,435	33,350
Exercisable at		
December 25, 1993	11,733	10,665
Option prices per share:		
Exercised during 1993 ...	\$17.58 to \$36.75	\$4.11 to \$36.31
Exercised during 1992 ...	\$17.58 to \$35.25	\$4.11 to \$29.88
Outstanding at		
year-end 1993	\$17.58 to \$36.75	\$4.11 to \$42.81

Note 16 – Fair Value of Financial Instruments

PepsiCo's financial instruments include cash, cash equivalents, short-term investments, debt, interest rate swap agreements, currency exchange agreements and guarantees. Because of the short maturity of cash equivalents and investments which mature in less than one year, the carrying value approximates fair value. The fair value of investments which mature in more than one year is based upon market quotes. The fair value of debt issuances, interest rate swap agreements and currency exchange agreements is estimated using market quotes, valuation models and calculations based on market rates. At year-end 1993 and 1992, the carrying value of all financial instruments was not materially different from fair value.

Note 17 – Contingencies

PepsiCo is subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Management believes that the ultimate liability, if any, in excess of amounts already provided arising from such claims or contingencies is not likely to have a material adverse effect on PepsiCo's annual results of operations or financial condition. At year-end 1993 and 1992, PepsiCo was contingently liable under guarantees aggregating \$276 million and \$200 million, respectively. The guarantees are primarily issued to support financial arrangements of certain bottling and restaurant franchisees and PepsiCo joint ventures. PepsiCo manages the risk associated with these guarantees by performing appropriate credit reviews in addition to retaining certain rights as a franchisor or joint venture partner.

Management's Responsibility for Financial Statements

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes, which have been prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and judgments, as required. The financial statements have been audited and reported on by our independent auditors, KPMG Peat Marwick, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that the representations made to the independent auditors were valid and appropriate.

PepsiCo maintains a system of internal control over financial reporting designed to provide reasonable assurance as to the reliability of the financial statements. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure key employees adhere to the highest standards of personal and professional integrity. PepsiCo's internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to the financial reporting process through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost effective internal control system will preclude all errors and irregularities, we believe our controls provide reasonable assurance that the financial statements are reliable.



Wayne Calloway
Chairman of the Board and Chief Executive Officer



Robert G. Dettmer
Executive Vice President and Chief Financial Officer



Robert L. Carleton
Senior Vice President and Controller

February 1, 1994

Report of Independent Auditors

Board of Directors and Shareholders
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 25, 1993 and December 26, 1992, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 25, 1993, appearing on pages 27, 28, 29, 30, 32, 34 and 36 through 44. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 25, 1993 and December 26, 1992, and the results of its operations and its cash flows for each of the years in the three-year period ended December 25, 1993, in conformity with generally accepted accounting principles.

As discussed in Notes 10 and 13 to the consolidated financial statements, PepsiCo, Inc. adopted the provisions of the Financial Accounting Standards Board's Statements of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and No. 109, "Accounting for Income Taxes" in 1992.



KPMG Peat Marwick
New York, New York
February 1, 1994

Selected Financial Data

(in millions except per share and employee amounts, unaudited)

PepsiCo, Inc. and Subsidiaries

(in millions except per share and employee amounts, unaudited) PepsiCo, Inc. and Subsidiaries	Growth Rates			1993 ^(a)	1992 ^(b)
	Compounded		Annual		
	10-Year 1983-93	5-Year 1988-93	1-Year 1992-93		
Summary of Operations					
Net Sales	14.3%	15.1%	13.9%	\$25,020.7	21,970.0
Cost of sales and operating expenses				22,114.2	19,598.8
Operating Profit	17.6%	16.7%	22.6%	2,906.5	2,371.2
Nonoperating gain ^(f)				—	—
Interest expense				(572.7)	(586.1)
Interest income				88.7	113.7
Income from continuing operations before income taxes and cumulative effect of accounting changes	18.3%	16.7%	27.6%	2,422.5	1,898.8
Provision for income taxes				834.6	597.1
Income from continuing operations before cumulative effect of accounting changes	18.9%	15.8%	22.0%	\$ 1,587.9	1,301.7
Cumulative effect of accounting changes ^(g)				\$ —	(927.4)
Net income	18.8%	15.8%	324.2%	\$ 1,587.9	374.3
Per Share Data					
Income from continuing operations before cumulative effect of accounting changes	19.5%	15.1%	21.7%	\$ 1.96	1.61
Cumulative effect of accounting changes ^(g)				\$ —	(1.15)
Net income	19.5%	15.1%	326.1%	\$ 1.96	0.46
Cash dividends declared	13.0%	18.0%	19.6%	\$ 0.610	0.510
Average shares and equivalents outstanding				810.1	806.7
Cash Flow Data^(h)					
Net cash provided by continuing operations	16.7%	10.6%	15.6%	\$ 3,134.4	2,711.6
Acquisitions and investments in affiliates for cash				\$ 1,011.2	1,209.7
Purchases of property, plant and equipment for cash	14.7%	22.2%	27.9%	\$ 1,981.6	1,549.6
Cash dividends paid	11.8%	18.3%	16.7%	\$ 461.6	395.5
Year-End Position					
Total assets	18.2%	16.3%	13.1%	\$23,705.8	20,951.2
Long-term debt	25.0%	22.9%	(6.6)%	\$ 7,442.6	7,964.8
Total debt ⁽ⁱ⁾	24.5%	18.6%	11.1%	\$ 9,633.8	8,671.6
Shareholders' equity				\$ 6,338.7	5,355.7
Per share	14.1%	14.6%	18.5%	\$ 7.94	6.70
Market price per share	25.7%	26.1%	(0.9)%	\$ 41 $\frac{1}{2}$	42 $\frac{1}{4}$
Shares outstanding				798.8	798.8
Employees	10.6%	12.5%	13.7%	423,000	372,000
Statistics					
Return on average shareholders' equity ^(j)				27.2%	23.9
Market net debt ratio ^(k)				22%	19
Historical cost net debt ratio ^(l)				50%	49

All share and per share amounts reflect three-for-one stock splits in 1990 and 1986.

(a) Includes a \$299 charge (\$0.04 per share) to increase net deferred tax liabilities for a 1% U.S. statutory income tax rate increase. (See Note 13.)

(b) Includes \$193.5 in unusual restructuring charges (\$128.5 after-tax or \$0.16 per share). (See Note on page 27.)

(c) Includes \$170.0 in unusual charges (\$119.8 after-tax or \$0.15 per share). (See Note on page 27.)

(d) Fiscal years 1988 and 1983 each consisted of 53 weeks. Normally, fiscal years consist of 52 weeks; however, because the fiscal year ends on the last Saturday in December, a week is added every 5 or 6 years.

(e) Includes a \$156.0 unusual charge (\$62.0 after-tax or \$0.07 per share) related to a program to sell several international bottling operations.

(f) The \$118.2 gain (\$53.0 after-tax or \$0.07 per share) in 1990 arose from an initial public offering of new shares by the KFC joint venture in Japan and a sale by PepsiCo of a portion of its shares.

(g) Represents the cumulative effect of adopting SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS 109, "Accounting for Income Taxes" in 1992. Prior years were not restated for SFAS 106 or SFAS 109. (See Notes 10 and 13.)

(h) Cash flows from other investing and financing activities, which are not presented, are an integral part of total cash flow activity.

(i) Total debt includes short-term borrowings and long-term debt, which for 1990 through 1987 included a nonrecourse obligation.

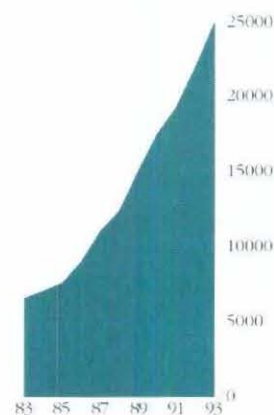
(j) The return on average shareholders' equity is calculated using income from continuing operations before cumulative effect of accounting changes.

(k) The market net debt ratio represents net debt, which is total debt reduced by the pro forma remittance of investment portfolios held outside the U.S., as a percent of net debt plus the market value of equity, based on the year-end stock price. In 1993, PepsiCo began including operating lease commitments as a component of total debt. Ratios for all prior years have been restated to reflect this change, increasing the ratios by 2 to 5 percentage points. For 1990 through 1987, total debt was also reduced by the nonrecourse obligation in the calculation of net debt.

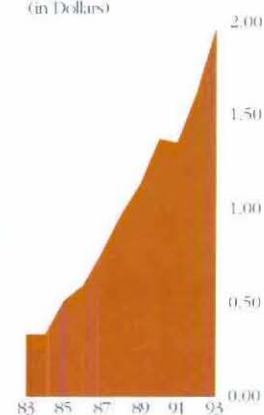
(l) The historical cost net debt ratio represents net debt, (see Note k) as a percent of capital employed (net debt, other liabilities, deferred income taxes and shareholders' equity). In 1993, PepsiCo began including operating lease commitments as a component of total debt. Ratios for all prior years have been restated to reflect this change, increasing the ratios by 3 to 6 percentage points.

1991 ^(c)	1990	1989	1988 ^(d)	1987	1986	1985	1984 ^(e)	1983 ^(d)
19,292.2	17,515.5	15,049.2	12,381.4	11,018.1	9,017.1	7,584.5	7,058.6	6,568.6
17,180.4	15,473.4	13,276.6	11,039.6	9,890.5	8,187.9	6,802.4	6,479.3	5,995.7
2,111.8	2,042.1	1,772.6	1,341.8	1,127.6	829.2	782.1	579.3	572.9
—	118.2	—	—	—	—	—	—	—
(613.7)	(686.0)	(607.9)	(342.4)	(294.6)	(261.4)	(195.2)	(204.9)	(175.0)
161.6	179.5	175.3	120.5	112.6	122.7	96.4	86.1	53.6
1,659.7	1,653.8	1,340.0	1,119.9	945.6	690.5	683.3	460.5	451.5
579.5	563.2	438.6	357.7	340.5	226.7	256.7	180.5	169.5
1,080.2	1,090.6	901.4	762.2	605.1	463.8	426.6	280.0	282.0
—	—	—	—	—	—	—	—	—
1,080.2	1,076.9	901.4	762.2	594.8	457.8	543.7	212.5	284.1
1.35	1.37	1.13	0.97	0.77	0.59	0.51	0.33	0.33
—	—	—	—	—	—	—	—	—
1.35	1.35	1.13	0.97	0.76	0.58	0.65	0.25	0.33
0.460	0.383	0.320	0.267	0.223	0.209	0.195	0.185	0.180
802.5	798.7	796.0	790.4	789.3	786.5	842.1	862.4	859.3
2,430.3	2,110.0	1,885.9	1,894.5	1,334.5	1,212.2	817.3	981.5	670.2
640.9	630.6	3,296.6	1,415.5	371.5	1,679.9	160.0	—	—
1,457.8	1,180.1	943.8	725.8	770.5	858.5	770.3	555.8	503.4
343.2	293.9	241.9	199.0	172.0	160.4	161.1	154.6	151.3
18,775.1	17,143.4	15,126.7	11,135.3	9,022.7	8,027.1	5,889.3	4,876.9	4,446.3
7,806.2	5,899.6	6,076.5	2,656.0	2,579.2	2,632.6	1,162.0	668.1	797.8
8,034.4	7,526.1	6,942.8	4,107.0	3,225.1	2,865.3	1,506.1	948.9	1,073.9
5,545.4	4,904.2	3,891.1	3,161.0	2,508.6	2,059.1	1,837.7	1,853.4	1,794.2
7.03	6.22	4.92	4.01	3.21	2.64	2.33	2.19	2.13
33¾	25¾	21¾	13¾	11¾	8¾	7¾	4¾	4¼
789.1	788.4	791.1	788.4	781.2	781.0	789.4	845.2	842.0
338,000	308,000	266,000	235,000	225,000	214,000	150,000	150,000	154,000
20.7	24.8	25.6	26.9	26.5	23.8	23.1	15.4	16.4
21	24	26	24	22	28	15	12	20
51	51	54	43	41	46	30	17	28

Net Sales
(\$ in Millions)



Income Per Share From Continuing Operations*
(in Dollars)



*Before cumulative effect of accounting changes in 1992.

Quarterly Financial Data

(in millions except per share amounts, unaudited)

	First Quarter (12 Weeks)		Second Quarter (12 Weeks)		Third Quarter (12 Weeks)		Fourth Quarter (16 Weeks)		Full Year (52 Weeks)	
	1993	1992	1993	1992	1993 ^(b)	1992	1993	1992 ^(c)	1993 ^(b)	1992 ^(c)
Net sales	\$5,091.6	4,497.3	5,890.3	5,126.4	6,316.4	5,548.3	7,722.4	6,798.0	25,020.7	21,970.0
Gross profit	\$2,641.4	2,303.9	3,102.8	2,680.8	3,322.1	2,862.7	4,008.3	3,510.9	13,074.6	11,358.3
Operating profit	\$ 506.0	456.9	750.4	676.3	851.6	725.2	798.5	512.8	2,906.5	2,371.2
Income before income taxes and cumulative effect of accounting changes	\$ 391.6	349.3	635.7	563.1	736.5	616.0	658.7	370.4	2,422.5	1,898.8
Provision for income taxes	\$ 131.2	114.3	208.9	184.3	278.3	193.7	216.2	104.8	834.6	597.1
Income before cumulative effect of accounting changes	\$ 260.4	235.0	426.8	378.8	458.2	422.3	442.5	265.6	1,587.9	1,301.7
Cumulative effect of accounting changes ^(a) :										
Postretirement benefits (after-tax)	\$ —	(356.7)	—	—	—	—	—	—	—	(356.7)
Income taxes	\$ —	(570.7)	—	—	—	—	—	—	—	(570.7)
Net income (loss)	\$ 260.4	(692.4)	426.8	378.8	458.2	422.3	442.5	265.6	1,587.9	374.3
Income (loss) per share:										
Income before cumulative effect of accounting changes	\$ 0.32	0.29	0.53	0.47	0.56	0.53	0.55	0.32	1.96	1.61
Cumulative effect of accounting changes ^(a)	\$ —	(1.15)	—	—	—	—	—	—	—	(1.15)
Net income (loss) per share	\$ 0.32	(0.86)	0.53	0.47	0.56	0.53	0.55	0.32	1.96	0.46

The 1992 gross profit amounts reflect a reclassification to conform with the 1993 presentation.

(a) Represents the cumulative effect related to years prior to 1992 of adopting SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS 109, "Accounting for Income Taxes." (See Notes 10 and 13.)

(b) Includes a \$299 (\$0.04 per share) charge to increase net deferred tax liabilities for the 1% statutory rate increase under the new U.S. tax legislation. Of this amount, \$25.2 is included in the provision for income taxes and \$4.7 is included in pretax earnings. (See Note 13.)

(c) Includes unusual restructuring charges totaling \$193.5 (\$128.5 after-tax or \$0.16 per share) consisting of \$115.4 at domestic beverages, \$29.6 at international beverages, \$40.3 at international snack foods and \$8.2 related to the Snack Ventures Europe affiliate.



Capital Stock Information

Stock Trading Symbol

PEP

Stock Exchange Listings

The New York Stock Exchange is the principal market for PepsiCo Capital Stock, which is also listed on the Chicago, Basel, Geneva, Zurich, Amsterdam and Tokyo Stock Exchanges.

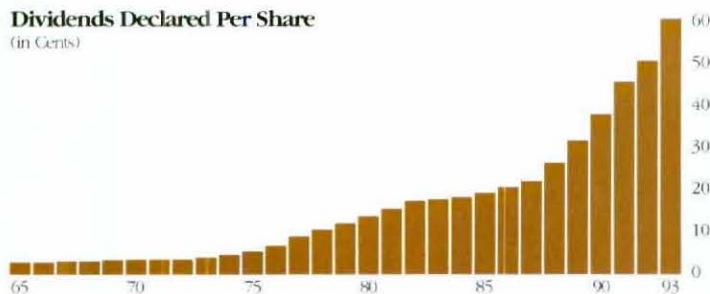
Shareholders

At year-end 1993, there were approximately 147,500 shareholders of record.

Dividend Policy

Cash dividends are declared quarterly. Quarterly cash dividends have been paid since PepsiCo was formed in 1965, and dividends have increased for 22 consecutive years.

Dividends Declared Per Share
(in Cents)



Consistent with PepsiCo's current payout target of approximately one-third of the prior year's income from continuing operations, the 1993 dividends declared represented 34% of 1992 income from continuing operations before unusual items.

Dividends Declared Per Share (in cents)

Quarter	1993	1992
1	13	12
2	16	13
3	16	13
4	16	13
Total	61	51

Stock Prices

The high, low and closing prices for a share of PepsiCo Capital Stock on the New York Stock Exchange, as reported by The Dow Jones News/Retrieval Service, for each fiscal quarter of 1993 and 1992 were as follows (in dollars):

1993	High	Low	Close
Fourth Quarter	42 $\frac{1}{8}$	37 $\frac{7}{8}$	41 $\frac{7}{8}$
Third Quarter	40 $\frac{1}{8}$	34 $\frac{5}{8}$	39
Second Quarter	43 $\frac{5}{8}$	34 $\frac{1}{2}$	36 $\frac{1}{2}$
First Quarter	43 $\frac{3}{8}$	38 $\frac{1}{2}$	42
1992	High	Low	Close
Fourth Quarter	43	36 $\frac{1}{8}$	42 $\frac{1}{4}$
Third Quarter	38 $\frac{7}{8}$	34 $\frac{1}{8}$	37 $\frac{3}{4}$
Second Quarter	38 $\frac{1}{4}$	32 $\frac{1}{4}$	36
First Quarter	35 $\frac{3}{4}$	30 $\frac{1}{2}$	32 $\frac{3}{4}$

Stock Performance

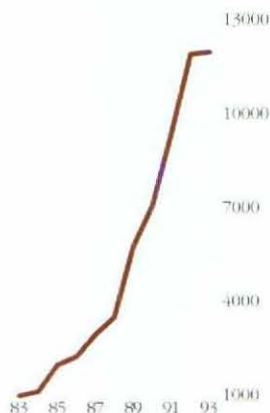
PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A \$1,000 investment in our stock made at year-end 1983 was worth \$12,000 on December 25, 1993, assuming the reinvestment of dividends. This performance represents a compounded annual growth rate of 28%.

The return on PepsiCo Capital Stock compares favorably with the performance of the Standard & Poor's Industrials over the past five years.

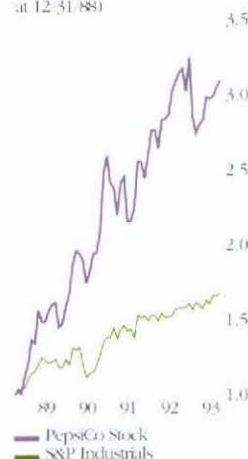
The closing price for a share of PepsiCo Capital Stock on the New York Stock Exchange is as reported by The Dow Jones News/Retrieval Service for the end of each fiscal year 1983-1993.

Past performance is not necessarily indicative of future returns on investments in PepsiCo Capital Stock.

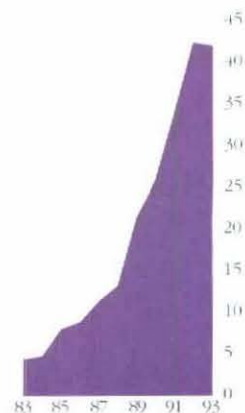
Total Return to Shareholders
(in Dollars, assuming reinvestment of dividends)



Comparison of Monthly Market Price Performance
(Closing Price Indexed at 12/31/88)

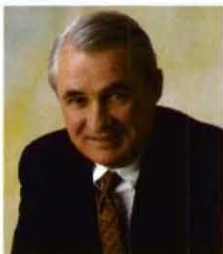


Year-End Market Price of Stock
(in Dollars)



PepsiCo Directors

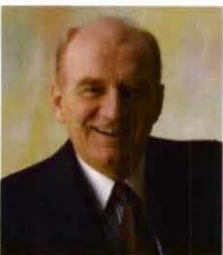
John F. Akers, 59, Former Chairman of the Board and Chief Executive Officer, International Business Machines Corporation. Elected 1991. Mr. Akers joined IBM in 1960 and became its Chairman and Chief Executive Officer in 1986. Director: The New York Times Company, Springs Industries, Inc., Zurich Insurance Co.—U.S.



Robert E. Allen, 59, Chairman of the Board and Chief Executive Officer, American Telephone and Telegraph Co. Elected 1990. Mr. Allen began his career at AT&T in 1957. He was elected President and Chief Operating Officer in 1986 and assumed his present responsibilities in 1988. Director: Bristol-Myers Squibb Company, Chrysler Corporation.



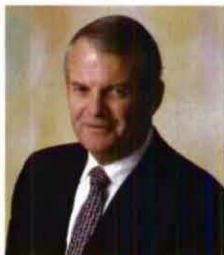
Wayne Calloway, 58, Chairman of the Board and Chief Executive Officer, PepsiCo, Inc. Elected 1983. Mr. Calloway joined PepsiCo in 1967. He became President of Frito-Lay, Inc. in 1976 and Executive Vice President and Chief Financial Officer of PepsiCo in 1983. He became President and Chief Operating Officer in 1985 and assumed his current position in 1986. Director: Citicorp, General Electric Company, Exxon Corporation.



Roger A. Enrico, 49, Vice Chairman of the Board, PepsiCo, Inc. Elected 1987. Mr. Enrico joined PepsiCo in 1971. He served as President and Chief Executive Officer of PepsiCo Worldwide Beverages and Chairman and Chief Executive Officer of PepsiCo Worldwide Foods. He assumed his present position in September 1993. Director: Dayton Hudson Corporation, The Prudential Insurance Company of America, Inc., Bank One, Texas, N.A.



John J. Murphy, 62, Chairman, Chief Executive Officer, Dresser Industries. Elected 1984. Mr. Murphy joined Dresser in 1952 and was elected Chairman and Chief Executive Officer in 1983. Director: NationsBank Corporation, Kerr-McGee Corporation.



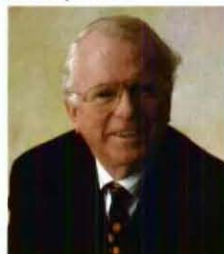
Andrall E. Pearson, 68, Former Professor, Harvard Business School. Elected 1970. Mr. Pearson was PepsiCo's President and Chief Operating Officer from 1971 through 1984. Director: Kendall Company, May Department Stores Company, Primerica Corp., Lexmark International, Inc. Director and Limited Partner: Clayton & Dubilier, Inc.



Sharon Percy Rockefeller, 49, President and Chief Executive Officer, WETA public stations in Washington, D.C. Elected 1986. Mrs. Rockefeller was a member of the Board of Directors of WETA from 1985 to 1989, a member of the Board of Directors of the Corporation for Public Broadcasting until 1992 and has also been a Member of the Democratic National Committee. Director: Public Broadcasting Service, Washington, D.C.



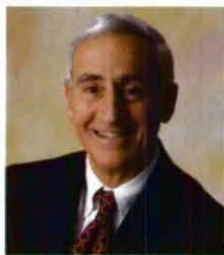
Roger B. Smith, 68, Retired Chairman and Chief Executive Officer, General Motors Corp. Elected 1989. Mr. Smith joined General Motors in 1949 and became its Chairman and Chief Executive Officer in 1981. Director: Citicorp, International Paper Co., Johnson & Johnson.



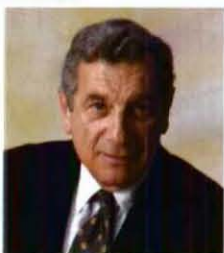
Robert H. Stewart, III, 68, Vice Chairman, Bank One, Texas, N.A. Elected 1965. Chairman: Compensation Committee. Mr. Stewart has served as Vice Chairman of the Board of Team Bank, Vice Chairman of the Board of LaSalle Energy Corp., Chairman of the Board and Chief Executive Officer of InterFirst Corp. and Chairman of the Board of First RepublicBank Corporation. He assumed his present position in 1992 upon the acquisition of Team Bancshares Inc. by BANC ONE CORPORATION. Director: ARCO Chemical Co.



P. Roy Vagelos, 64, Chairman of the Board and Chief Executive Officer, Merck & Co., Inc. Elected 1992. Dr. Vagelos joined Merck in 1975 and became President and Chief Executive Officer in 1985. He became a director in 1984 and Chairman in 1986. Director: The Prudential Insurance Company of America, Inc.



Arnold R. Weber, 64, President, Northwestern University. Elected 1978. Chairman: Audit Committee. Dr. Weber was previously President of the University of Colorado and has held various government positions, including Executive Director of the Cost of Living Council. Director: Aon Corp., Burlington Northern, Inc., Inland Steel Company, The Tribune Co.



Principal Divisions and Corporate Officers

(Listings for Division Presidents and Executive Officers include age and years of PepsiCo experience as of March 31, 1994.)

Executive Offices

Purchase, New York 10577
(914) 253-2000

Divisions

Pepsi-Cola North America
1 Pepsi Way

Somers, New York 10589
(914) 767-6000

Craig E. Weatherup, President and
Chief Executive Officer, 48, 19 years

Frito-Lay, Inc.

7701 Legacy Drive
Plano, Texas 75024

(214) 334-7000

Steven S. Reinemund, President and
Chief Executive Officer, 45, 9 years

PepsiCo Foods and Beverages International
1 Pepsi Way

Somers, New York 10589

(914) 767-6000

Christopher A. Sinclair, President and
Chief Executive Officer, 43, 11 years

Pizza Hut Worldwide

9111 East Douglas

Wichita, Kansas 67207

(316) 681-9000

Allan S. Huston, President and

Chief Executive Officer, 50, 22 years

Taco Bell Worldwide

17901 Von Karman

Irvine, California 92714

(714) 863-4500

John E. Martin, President and

Chief Executive Officer, 48, 10 years

Kentucky Fried Chicken Corporation

1441 Gardiner Lane

Louisville, Kentucky 40213

(502) 456-8300

John M. Cranor III, President and

Chief Executive Officer, 47, 16 years

PepsiCo Food Systems

6606 LBJ Freeway (Suite 150A)

Dallas, Texas 75240

(214) 338-7280

Robert C. Hunter, President, 45, 19 years

Co-founder of PepsiCo, Inc.

Donald M. Kendall

Chairman of the PepsiCo Foundation,
46 years of PepsiCo experience

Officers

Wayne Calloway

Chairman of the Board and

Chief Executive Officer, 58, 27 years

Roger A. Enrico

Vice Chairman of the Board, 49, 22 years

Robert G. Dettmer

Executive Vice President and

Chief Financial Officer, 62, 21 years

Randall C. Barnes

Senior Vice President and

Treasurer, 42, 6 years

Robert L. Carleton

Senior Vice President and

Controller, 53, 19 years

Donovan R. Christopherson

Senior Vice President, Restaurant

Development, 61, 13 years

J. Roger King

Senior Vice President,

Personnel, 53, 24 years

Edward V. Lahey, Jr.

Senior Vice President, General

Counsel and Secretary, 55, 28 years

Joseph F. McCann

Senior Vice President,

Public Affairs, 53, 21 years

Leonard Schutzman

Senior Vice President, 47, 17 years

Robert O. Barber

Vice President and

Assistant Controller, 44, 16 years

Robert K. Biggart

Vice President and

International Counsel, 39, 9 years

John S. Bronson

Vice President, Human Resources

46, 14 years

Gerard W. Casey

Vice President and

Associate General Counsel, 51, 24 years

Douglas M. Cram

Vice President and

Assistant General Counsel, 51, 20 years

Allan B. Deering

Vice President, Management Information

Services, 59, 13 years

Lawrence F. Dickie

Vice President, Associate General Counsel

and Assistant Secretary, 51, 17 years

William A. Finkelstein

Vice President and

Intellectual Property Counsel, 46, 20 years

John J. Flaherty

Vice President and

General Auditor, 54, 12 years

Karen L. Halby

Vice President, Tax Counsel

North America, 35, 2 years

Ronald E. Harrison

Vice President,

Community Affairs, 58, 29 years

David D. Hatch

Vice President, Organization and

Management Development, 40, 10 years

Linda S. Huber

Vice President, Corporate Finance and

Assistant Treasurer, 35, under one year

Burkett W. Huey, Jr.

Vice President, Benefits, 52, 2 years

Joseph J. Joyce

Vice President and

Assistant General Counsel, 50, 22 years

Jay M. Kushner

Vice President, International

Tax Planning, 37, 9 years

Kathleen Allen Luke

Vice President and Corporate Division

Counsel, 38, 8 years

Matthew M. McKenna

Vice President, Taxes, 43, under one year

Fred S. McRobie

Vice President and

Assistant General Counsel, 52, 19 years

Ronnie Miller Hasday

Vice President, Personnel, 45, 18 years

Margaret D. Moore

Vice President, Investor Relations,

46, 20 years

Claudia E. Morf

Vice President, Corporate Finance and

Assistant Treasurer, 42, 12 years

David E. Scherb

Vice President, Compensation, 45, 6 years

Peter R. Thompson

Vice President, Corporate Finance and

Assistant Treasurer, 44, 16 years

David L. Wright

Vice President, Government Affairs,

45, 9 years

Shareholder Information

Inquiries Regarding Your Stock Holdings

Registered Shareholders (Shares held by you in your name): Questions on your statement, dividend payments, address changes or other matters should be directed to:

PepsiCo, Inc.	or	Manager, Shareholder Relations
c/o Bank of Boston		PepsiCo, Inc.
P.O. Box 9155		Purchase, New York 10577
Boston, MA 02205-9155		Telephone: (914) 253-3055
Telephone: (800) 226-0083		

In all correspondence or phone inquiries, please mention PepsiCo, your name **as printed on your stock certificate**, your social security number, your address and telephone number.

Beneficial Shareholders (Shares held by your broker in the name of the brokerage house): Questions should be directed to your broker on all administrative matters.

SharePower Participants: Employee questions regarding your account, outstanding options or shares received through option exercises should be addressed to:

Merrill Lynch/SharePower
Stock Option Plan Services
P.O. Box 30466
New Brunswick, New Jersey 08989
Telephone: (800) 637-6713 (U.S., Puerto Rico and Canada)
(908) 469-8877 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your social security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants:

Capital Stock Purchase Plan	(800) 227-4015
SaveUp (formerly 401-K or Long-term Savings)	(800) 227-4015
	(outside U.S.) (617) 472-3127
ESOP	(914) 253-3737

Please have a copy of your most recent statement available when calling with inquiries.

Dividend Reinvestment Plan

By enrolling in PepsiCo's Dividend Reinvestment Plan, which offers a stock certificate safekeeping feature, registered shareholders may increase their investment in our stock through the reinvestment of dividends and voluntary cash investments up to \$60,000 per year. A brochure explaining this convenient plan, for which PepsiCo pays all administrative costs, is available from our transfer agent:

PepsiCo, Inc.	
c/o Bank of Boston	
P.O. Box 9156	
Boston, MA 02205-9156	Telephone: (800) 226-0083

Financial Information

Shareholders with questions regarding PepsiCo's performance are invited to contact:

Margaret D. Moore
Vice President, Investor Relations
PepsiCo, Inc.
Purchase, New York 10577
Telephone: (914) 253-3035

Shareholders who wish to receive, free of charge, copies of PepsiCo's Form 10-K and 10-Q reports filed with the Securities and Exchange Commission, quarterly earnings releases (including segment results) or midyear update, contact PepsiCo's Manager of Shareholder Relations at (914) 253-3055.

Independent Auditors

KPMG Peat Marwick
345 Park Avenue
New York, New York 10154

Annual Shareholders' Meeting

The Annual Meeting of Shareholders will be held at PepsiCo World Headquarters on Anderson Hill Road, Purchase, New York at 10 a.m. (EDT), Wednesday, May 4, 1994. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Eliminate Waste: When shares owned by one shareholder are registered in different forms of the same name (Jane R. Doe, J.R. Doe and J. Rose Doe), duplicate mailings of shareholder information results. The Company mails to each name on the shareholder list **unless the shareholder requests that duplicate mailings be eliminated.** If you currently receive duplicate reports, you can help eliminate the added expense by requesting that only *one* copy be sent. Please provide the name, address and social security number for the account you wish to keep on the list, and which names should be deleted. **This change will not affect your dividend or proxy mailings.** If you don't recall the various names, but wish to eliminate duplication, give your name, address and social security number to PepsiCo's Manager of Shareholder Relations, and we will do our best to identify the account.

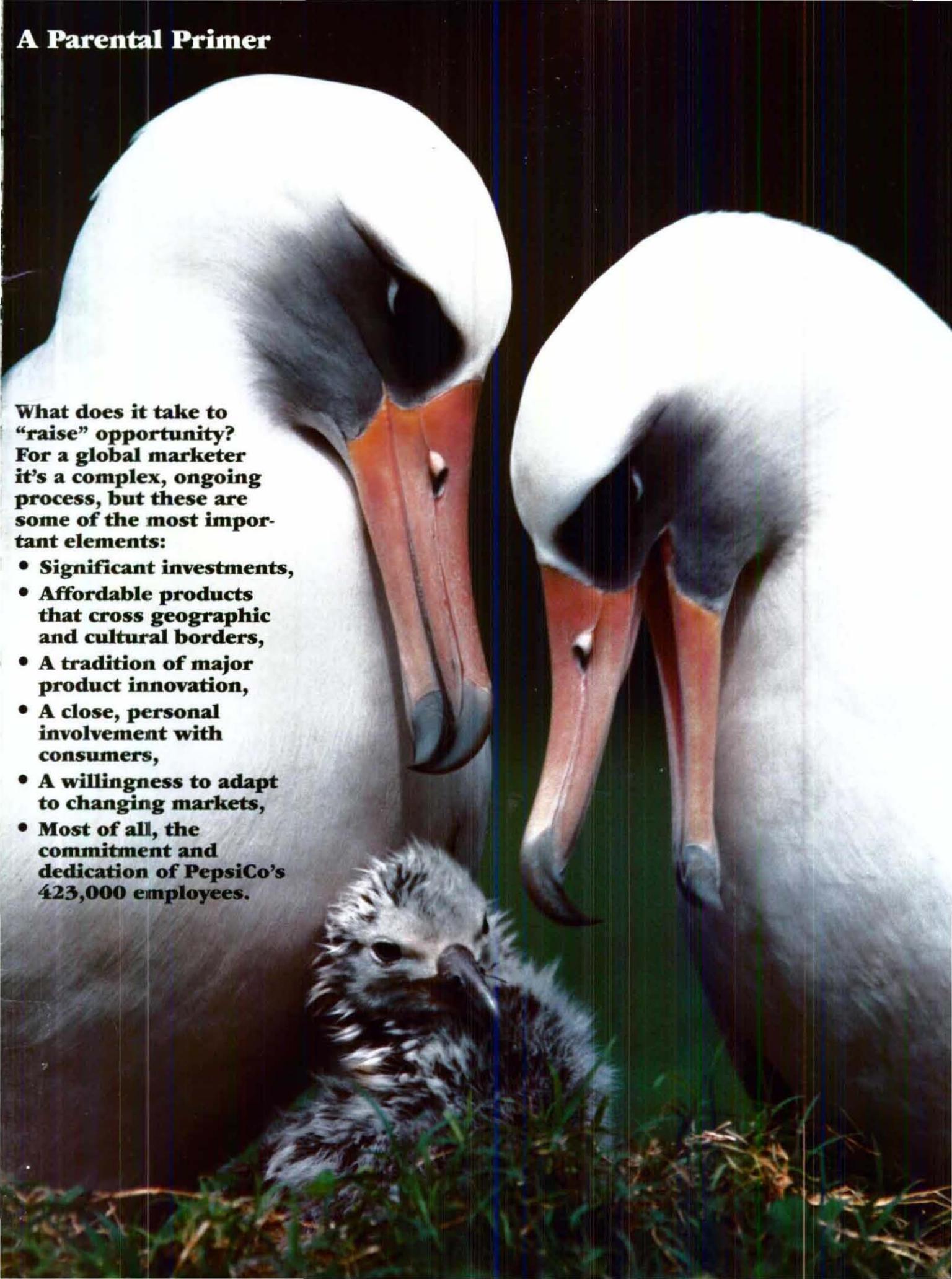
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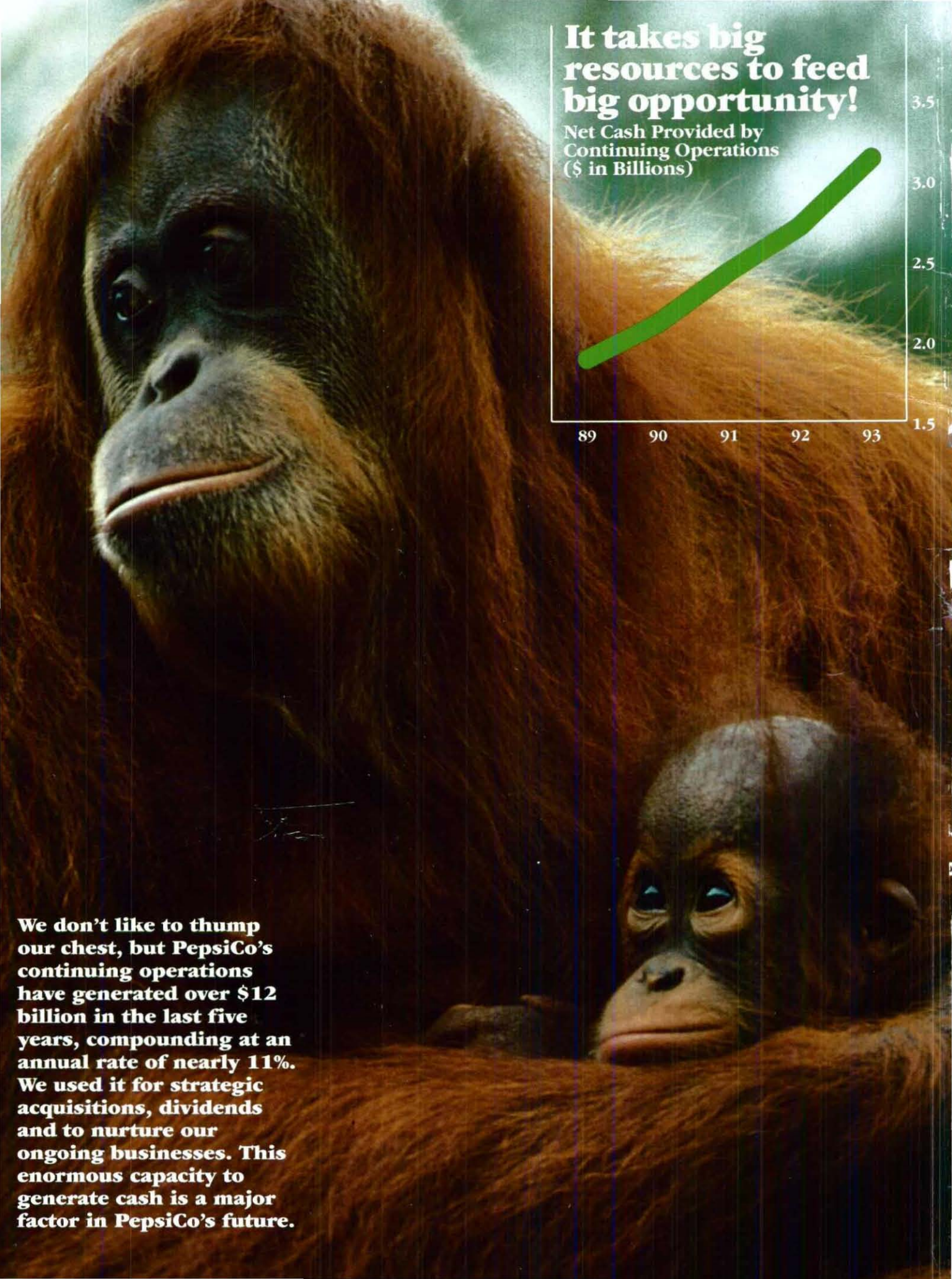
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(Harry Warren, Johnny Mercer)
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A Parental Primer



What does it take to “raise” opportunity? For a global marketer it’s a complex, ongoing process, but these are some of the most important elements:

- Significant investments,
- Affordable products that cross geographic and cultural borders,
- A tradition of major product innovation,
- A close, personal involvement with consumers,
- A willingness to adapt to changing markets,
- Most of all, the commitment and dedication of PepsiCo’s 423,000 employees.



It takes big resources to feed big opportunity!

Net Cash Provided by Continuing Operations (\$ in Billions)



We don't like to thump our chest, but PepsiCo's continuing operations have generated over \$12 billion in the last five years, compounding at an annual rate of nearly 11%. We used it for strategic acquisitions, dividends and to nurture our ongoing businesses. This enormous capacity to generate cash is a major factor in PepsiCo's future.